Standard Co-operative Book-keeping.

PART 1.

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STANDARD CO-OPERATIVE BOOK-KEEPING

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WITH AN INTRODUCTION
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PART I.

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INTRODUCTION

By Mr. W. R. RAE, Chairman of the Central Education Committee of the Co-operative Union.

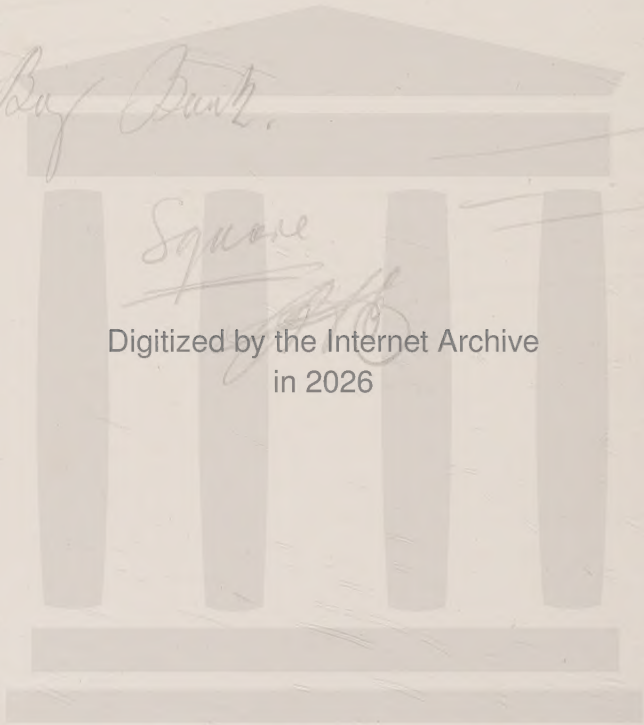
IT is now twenty years since Mr. Alfred Wood, F.C.A., prepared for the Central Education Committee the text-book, "Co-operative Book-keeping." That book was intended to meet the need, which was then evident, for more systematic instruction and training in Co-operative accounts. It has met the need excellently, as results have testified. The book has passed through many editions, and thousands of copies have been printed and used. Thousands of students, covering almost a generation, have been indebted to it for the greater part of their knowledge of the methods of Co-operative Book-keeping and the principles upon which Co-operative Accounting is based.

But new times bring new needs; and the adoption by the Southport Congress this year of the Standard Balance Sheet, a form of balance sheet based upon a new principle of recording expenses, has created the need for another text-book in line with the new proposals. The Central Education Committee, as the body responsible for the direction of the teaching of Co-operative Book-keeping, acting in harmony with the wishes of the special committee which had evolved the new form of balance sheet, therefore decided to issue a new text-book as early as possible after the Congress decision had been made.

They entrusted the task of preparation to their Adviser of Studies (Professor Hall), who has not only been intimately associated with the teaching and examination work of the Union's Book-keeping classes for several years, but has taken an active share in the work of the Standard Balance Sheet Committee, whose recommendations are embodied in the form of Standard Balance Sheet approved by Congress. The book benefits by his experience, and it also embodies many ideas and suggestions emanating from a variety of sources.

The volume now published—Part I.—will be followed by a second volume—Part II.—at an early date, and the two parts will constitute a comprehensive work on Co-operative Book-keeping. The Central Education Committee, in issuing this first part, do so with the confidence that it will assist in extending a knowledge of sound methods of accountancy, upon which the business success of Co-operative Societies so largely depends.

W. R. RAE.



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AUTHOR'S PREFACE.

THIS book has been written with a two-fold purpose. It has been designed, in the first place, to meet the needs of the large number of students who, year by year, undertake a study of Co-operative Book-keeping; and, in the second place, to serve as a guide and help to those who are engaged in the recording of Co-operative accounts, and are practitioners rather than class students. Some such design was necessitated by the decision of the Southport Congress (1925) *to approve the new form of balance sheet, known as the Standard Balance Sheet, and to recommend its adoption by societies. That balance sheet introduces certain differences of method in recording the transactions of societies, and those who are at present engaged in account-keeping, as well as those who are class students, will desire to examine and study them. To the one class of user of the book some parts of it may seem rather advanced, whilst other parts may seem to the second class to be rather elementary. This could hardly be avoided if both students and practitioners were to be helped. The parts of the book which elementary students are expected to know thoroughly for examination purposes are indicated in the Stage I. syllabus in the educational programme published by the Central Education Committee.*

In preparing the book I have had in mind the desirability of inciting the student to think as well as to record. It is important he should have knowledge of reasons and advantages attached to this or that method, as well as clear ideas of the relationship that subsists between different records in the realm of accountancy; it is not sufficient that he be merely a mechanical recorder, copying what his predecessor did. Hence, at an early stage the student is asked to distinguish between income and receipts, between expenditure and payments, and between revenue expenditure and capital expenditure. There is a right to expect, as well as grounds for believing, that after the twenty years' improved education which has existed in this country since the last text-book on Co-operative Book-keeping was issued, the students of Co-operative Book-keeping can undertake and find an interest in the line of approach adopted. This new text-book will make demands upon them, but they will reap the benefits of their efforts.

The book is based upon the principle of classifying expenditure according to function, which is the most important new feature introduced in the Standard Balance Sheet. The principles of Double Entry Book-keeping and the books of record are first explained, after which the student is introduced to the transactions of a society, and these transactions are recorded from the stage of their first entry up to the balance sheet stage. The repetition of treatment and explanation which this method involves will, it is believed, be advantageous to the student who, after having studied the parts, can see the process of the building up of the parts in relation to the building up of the whole of the balance-sheet accounts. In more ways than one, repetition occurs in the book, but I have not hesitated to repeat a description, explanation, or argument when it has seemed likely that the student would be helped by the repetition. I have also added a chapter on cheques, and a chapter on those banking matters which are germane to the work of the Co-operative book-keeper. A list of abbreviations and one of commercial terms likely to be of assistance to the student and book-keeper are also included. A summary for revision purposes is provided at the end of each chapter, where a list of questions and exercises is also included, these being supplemented by two sets of revision questions and exercises, and by four specimen test papers.

Many colleagues and friends have helped me in various ways, and my indebtedness to them I should like here to acknowledge. I send the book forth with the hope that teachers and students alike may find interest in it, and with the further hope that they and the Co-operative movement as a whole may benefit from my execution of the task entrusted to me by the Central Education Committee.

FRED HALL.

Holyoake House, Manchester,
November 18th, 1925.

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Standard Co-operative Book-keeping.

CHAPTER I.
INTRODUCTORY.

WHAT IS BOOK-KEEPING?

WHEN a person commences a business he will, if wise, keep a record of his daily transactions so that he may know how he stands in relation to the people with whom he does business and may ascertain what progress he is making. The same records will tell him how the business stands in relation to him, the owner.

What is merely desirable in the case of an individual engaged in business becomes necessary when a number of individuals are jointly engaged in a business undertaking as are the members of a Co-operative Society. In the case of a business owned by an individual he has no one to please but himself, and if he suffers loss through not keeping satisfactory records of his business affairs he has only himself to blame. But where a number of persons are joint owners of a business, justice and equity must be rendered to each of them; and it is only when proper records are kept that their relations with the business can be ascertained and satisfaction given that equitable treatment is being accorded to all of them. There would be a tremendous outcry if there were a loss in such a business and there were no records. It would be difficult to the point of impossibility to prove how the loss had arisen, and there would be widespread dissatisfaction. If there were no records open to examination by interested parties, or, on their behalf, by disinterested experts such as auditors, there might be dissatisfaction and suspicion that some were treated more favourably than others even if there were no loss. If there were a loss, the dissatisfaction and suspicion would be increased.

The keeping of these records is known as Book-keeping. In a Co-operative Society, each member must feel assured that an accurate record is kept of his share capital, and of the loan capital and savings-bank deposits to which he is entitled; and, in addition, he wants to be satisfied that a record is kept of the property and debts of the society and of the business transactions in which the society has been engaged.

There is an additional reason for keeping accounts in a registered Co-operative Society. The Industrial and Provident Societies' Acts, under which Co-operative Societies are registered, require each society to send once a year to the Registrar of Friendly Societies an "Annual Return" containing certain specified information, which cannot be supplied unless the society has kept accounts.

THE OBJECTS OF BOOK-KEEPING.

Four principal objects are sought in Book-keeping. The owners of the business desire to know:—

(*a*) What is owing to the business by those to whom goods have been sold, or to whom money has been lent, or to whom services have been rendered; and what is owing by the business to those from whom goods have been bought, or from whom money has been borrowed, or from whom services have been received.

(*b*) What is the result of the operations of the business—usually this is ascertained quarterly, half-yearly, or yearly.

(*c*) What is the value of the property of all kinds belonging to the business; and

(*d*) What is owing by the business to its owners.

Book-keeping may, therefore, be defined as "the systematic recording and arrangement of the facts and figures relating to a business"; or it may be defined with greater precision in the following words: "Book-keeping is the name given to the process of recording those facts and figures relating to a business which show (*a*) the position of the business in relation to the owners of the business and other persons; (*b*) the debts and possessions of the business; and (*c*) the results of the various operations in which the business has engaged."

1.—Relations with Debtors and Creditors.

We may now expand the statement of objects and explain some elementary but important matters as we proceed. A person

from whom a Co-operative Society buys goods or receives money or services is described as a *creditor*. A person to whom a society sells goods, pays money, or renders services is described as a *debtor*. The same person may, therefore, at one time be a debtor and at another time a creditor, or vice versa. For example, if a society buys goods from the Co-operative Wholesale Society it is a debtor for the value of those goods; but when it pays for the goods it is a creditor for the amount it pays, although it is only settling a debt it owes. Or, again, if a society lends a member £400 to buy a house or for any other purpose, the society is a creditor for the amount lent; and when a part or the whole of the amount is repaid, the society is a debtor for the amount repaid. The affairs of the society would soon get into a tangle if a record of these transactions were not kept; and it is, therefore, an important object of Book-keeping to keep an accurate account of the relation of the business to its debtors and creditors—those to whom something has been paid or supplied and those who owe something to the business (debtors), and those who have paid or supplied something to the business and to whom the business owes something (creditors).

It will probably have been noticed already by the student or reader that every transaction involves two persons. If it is a sale of goods, a buyer and seller are involved. The former receives goods and the latter hands them over. If it is a payment of money, then there is a payer and a receiver. The receiver of goods or money is a debtor for what he receives, and the one who parts with the goods or money is a creditor. Every transaction, therefore, involves two persons—one a debtor and the other a creditor for what has passed between them. It is the recording of both sides of every transaction that leads to the name "Double Entry" Book-keeping.

It should be noted, even at this early stage, that the business is considered to be something quite separate from the owners. The owners of the business having paid money to the business, the latter, as the receiver of that money, is a debtor for the amount received; and when the business pays anything to the owners, the business is a creditor for the amount paid; whilst the owners are treated as debtors for the amount when it is paid to them, though the amount was owing to them. As will be explained

in Chapter II., an entry which shows a person to be a creditor of the society is known as a credit entry, and an entry which shows a person to be a debtor is known as a debit entry. If, say, a person invests £50 in a society, a credit entry shows him to be a creditor for this amount. When this is repaid to him, a debit entry shows him to be a debtor for the amount. When the total of the credit entries and the total of the debit entries agree, the whole debt has been repaid and both he and the society cease to be either a debtor or creditor to the other party.

The difference between an owner of a business (or joint owner like the member of a Co-operative Society) and the other creditors of the business is that the latter are entitled to payment in full of any debts owing to them before the owners receive any part of the money they have invested as owners of the business. In a Co-operative Society, the contribution of share capital by a person makes him a member—a joint owner—but he is not made a member or joint owner as a result of the depositing of loan capital or making a deposit in the savings bank. If a society fails and its business is wound up, the depositors in the savings bank and the loan account are in the same position as the creditors who have supplied goods: they have to be paid off in full before the shareholders are entitled to the return of one penny of their share capital. It is, therefore, very important to keep separate and accurate records of loan capital and savings-bank deposits quite distinct from the holdings of shares. Let us again notice that a person who holds shares in a society is a member of that society; but a person is not a member of the society in respect of any loan capital or savings-bank deposits he may have provided.

2.—Record of Assets and Liabilities.

The debts owed by a society are known as *liabilities*. Liabilities, therefore, include debts owing by the society for goods supplied, for money lent to the society either by members or non-members, and for interest and dividend due to members and others. Any money, shares, buildings, goods, etc., owned by the society are known as *assets*. Thus assets include cash in hand or at the bank; land, buildings, machinery, and fixtures; debts owing to the society by members or others for goods supplied or money lent; investments (shares and loans, such as those in the Co-operative Wholesale Society); and stock of goods on hand. It is obviously important

to keep a record of these assets and liabilities, and a satisfactory system of Book-keeping includes the keeping of these records. It is, therefore, a second important object of Book-keeping to keep an accurate record of all the liabilities and assets of a business.

3.—Results of Business Operations.

No business can continue long if its expenses are higher than its income. It is, therefore, necessary to keep records of these expenses and income in order that the results of the business operations can be ascertained. Hence, a third important object of Book-keeping is to record the results of business operations. If the business has been conducted successfully the trading income will have exceeded the trading expenditure, and the difference will be what is known in outside businesses as a "profit," but now often described in Co-operative Societies as a "surplus." The word "surplus" is more correct because persons who, collectively, buy goods and afterwards distribute them among themselves cannot make a "profit" in the ordinary sense, especially when the surplus is returned as a dividend on purchases, which is, in effect, a reduction of selling price to cost price.

THE BALANCE SHEET.

The records mentioned in this chapter—relations to debtors and creditors, including the owners of the business, the statement of assets and liabilities, and the results of the business operations—are summarised from time to time, usually quarterly, half-yearly, or yearly, and they are published with the collective name of "Balance Sheet." The name arises from the fact that the items which are included in the various accounts of the balance sheet are the "balances" of various accounts, as will be explained later. Some accountants reserve the name Balance Sheet for the statement of assets and liabilities, since the balances included in this statement are ultimately the only balances remaining in the books at the end of a trading period, the other balances being transferred to other accounts; but in the Co-operative movement the name Balance Sheet has by long usage come to indicate the whole collection of accounts published; and the term will therefore be employed with this meaning throughout this book in order to avoid confusion.

CO-OPERATIVE BOOK-KEEPING.

Co-operative Book-keeping is based on the same general principles as company Book-keeping and Book-keeping for other types of business firms. These principles form the basis of what is known as Double Entry Book-keeping; but every type of business has its special features and needs, and the system of Book-keeping is modified in accordance with these features and needs. Co-operative Book-keeping is a system of Book-keeping containing modifications to meet the special needs of Co-operative Societies. It will be our purpose in succeeding chapters to explain the general principles of Double Entry Book-keeping, and to consider them in relation to the needs of Co-operative Societies.

SUMMARY.

Persons engaged in business desire to know (1) how the business stands in relation to (*a*) persons with whom it has had dealings; and (*b*) themselves; (2) what are the assets and liabilities of the business; (*c*) whether the business is being conducted successfully or not. Book-keeping is the name given to the process of recording and arranging the facts and figures of the business so that this information can be readily ascertained.

A person receiving goods, money, or services is recorded as a debtor for what he receives, even if he be receiving something owing to him; and a person paying away goods, money, or services is recorded as a creditor even if he be paying what he owes.

In the books of a business, the owners are considered as persons distinct from the business. When they pay money to the business they are recorded as creditors and the business is recorded as a debtor; and when they receive money from the business they are recorded as debtors and the business is recorded as a creditor. The owners differ from the rest of the creditors by reason of the fact that they are the last to be paid off if the business is wound up. Being owners of the business, they must pay other people before they pay themselves. In a Co-operative Society, the holding of share capital makes a person a member, but the holding of loan capital and savings-bank deposits does not; hence, in a dissolution or winding up, loan capital and savings-bank deposits must be paid off in full with the debts of other creditors of the society before the shareholders (i.e., the owners) can receive payment at all, but they—the shareholders—are entitled to all that is left (after the other creditors have been paid in full) whether it is more, or less, than the amount of their share capital.

"Assets" is the name given to rights and possessions belonging to a person or firm. They include, in a Co-operative Society, cash in hand or at the bank; land, buildings, fixtures, machinery and plant belonging to the society, whether used in trade or not; investments in shares and loans; debts owing to the society for goods or services; and stock of goods on hand.

"Liabilities" is the name given to the debts or obligations owed by a person or firm. They include, in a Co-operative Society, debts owing for goods or services supplied to the society; deposits owing to the depositors in the savings bank or loan account; and share capital owed to the members.

In the Co-operative movement the term "Balance Sheet" is employed to cover all the accounts published, but in non-co-operative businesses the term usually means only the statement of assets and liabilities.

Co-operative Book-keeping embodies the same principles as the Book-keeping employed in non-co-operative businesses; and these principles provide the basis of Double Entry Book-keeping; but all businesses modify the application of these principles to suit their special needs; and in Co-operative Book-keeping the principles are applied in the manner necessitated by the special features and needs of Co-operative Societies.

QUESTIONS AND EXERCISES.

1. What is Book-keeping ?

2. What are the objects of Book-keeping ?

3. Why is it desirable or necessary for a Co-operative Society to have a good system of Book-keeping ?

4. What is a debtor ? What is a creditor ?

5. Explain in each of the following cases which person is a debtor and which is a creditor, and say why.

(*a*) John Smith sells a bicycle for £10 to Frank Lee and delivers it on receiving the cash.

(*b*) Frank Lee pays John Smith £10.

(*c*) A. Jones deposits 5s. in the savings bank of the New Co-operative Society Ltd.

(*d*) The Brightlee Co-operative Society receives goods from the C.W.S. value £100.

(*e*) James May lends Robert Stone £5.

(*f*) Robert Stone repays James May £4.

6. Why are the owners of a business considered as creditors of the business ? In what respect do they differ from other creditors of the business ?

7. Who are the owners of a Co-operative Society's business and what kind of capital makes a person a member ? What other kind of capital is sometimes invested in a Co-operative Society ?

8. What are assets ? What are liabilities ? Give two examples of each.

9. Indicate which of the following items are assets and which are liabilities in the books of a Co-operative Society:—

A horse; members' share capital; £500 invested by the society in the C.W.S.; £100 owing to the society for goods supplied to members; £50 at the bank; £200 owing to depositors in the savings bank.

10. What is the meaning of " Balance Sheet " in a Co-operative Society and in a non-co-operative business ?

11. It is said that every business transaction involves two persons. Give three examples to illustrate the truth of this statement. What names are given to the parties to the transactions ?

12. Why is the name " surplus " used in reference to the trading operations of a Co-operative Society, and why is the use of the word " profit " wrong in this connection ?

CHAPTER II.

THE ESSENTIAL PRINCIPLE OF DOUBLE ENTRY BOOK-KEEPING.

SINGLE ENTRY BOOK-KEEPING.

IF at the beginning of a year a trader ascertained the difference between the assets of his business and its liabilities to persons other than himself, that difference would be what belonged to him as owner, and it would be called his capital. If he withdrew and deposited nothing during the year and made a similar calculation at the end of the year, any increase in his capital over that at the beginning of the year would represent his profit for the year. If his capital had decreased, the amount of the decrease would represent his loss during the year.

In former times this was, indeed, the method adopted to ascertain the profit or loss for the year. Such a system of ascertaining the profit or loss is based upon a method, or system, of keeping books known as the Single Entry System, because each transaction is entered once, and once only. This system has many defects, the principal one being that any mistake in ascertaining the assets or liabilities leads to a wrong declaration of profit or loss for the year. The system almost universally employed at the present time is the Double Entry System, so called because each transaction is recorded twice. This system avoids the serious defects of the Single Entry System.

THE DOUBLE ENTRY SYSTEM.

Two Parties to Every Transaction.

Every business transaction involves two persons. If goods are bought, there is a buyer and a seller. If goods are sold, there is, again, a buyer and a seller. If money passes, there is a payer and a receiver. If the ownership of property passes from one person to another, there is one who parts with the ownership and one who receives it. Double Entry Book-keeping records both sides of every transaction. One entry shows the relation of the business to the outside party, and the other shows the relation of the outside party to the business.

Debit and Credit Entries.

In all cases, the receiver of goods, money, or the ownership of property is a debtor for what he receives; and the one from whom he receives it is a creditor for what he has parted with. An entry in the books which shows that a person is a debtor is known as a *debit*, or debtor (often abbreviated to Dr.) entry; whilst the record of the other side of the transaction, showing that a person is a creditor, is known as a *credit*, or creditor (usually abbreviated to Cr.), entry. To facilitate the recording of these debit and credit entries, those books of record which have to show debtor and creditor relationships are ruled with the left-hand side for the debit, or Dr., entries, and the right-hand side for credit, or Cr., entries; and the respective sides are usually headed Dr. and Cr. As young students are often confused regarding the position of the Dr. and Cr. columns, they might remember the mnemonic Doctor Cross—abbreviated to Dr., Cr.—which will remind them that, reading from left to right, Dr. comes before Cr. As they proceed with their study they will remember which is the Dr. side and which is the Cr. side without any such aid.

The Allocation of Debit and Credit Entries.

In Chapter I. reference was made to a society's purchase of goods from the C.W.S., and it was pointed out that the society was a debtor for the goods bought. We can now see that the C.W.S. was a creditor for these same goods. There must be two entries for this transaction—one to show the society a debtor for the goods, and one to show the C.W.S. a creditor for them; a debit entry is required in the first case, and a credit entry in the second place.

We have now to notice a very important distinction between the entry as the transaction affects the society, and the entry as the transaction affects the C.W.S. We may, for convenience, take the second record first. In a book known as the *Ledger* there is a page set aside for each person or firm to record all transactions with that person or firm. There is one such page for recording all the transactions with the C.W.S., and the name Co-operative Wholesale Society Ltd. will appear at the head of this page. The page will be divided into two halves by a line running from top to bottom. On the left of this line will be the columns for recording the debit, or Dr., items; and on the right of the line will be the

columns for recording the credit, or Cr., items. The following ruling illustrates the heading of a page in the Ledger:—

CO-OPERATIVE WHOLESALE SOCIETY LIMITED.

Dr. 1, Balloon Street, Manchester. *Cr.*

Date.	Narration.	Cash Book Folio.	£ s. d.	Date.	Narration.	Invoice No. or P. B. Folio.	£ s. d.

(See Chapters III. and VI. for fuller description.)

The difference between the totals of the two sides of the Ledger Account of the C.W.S. in the books of the retail society at any moment—known as the balance of the account—shows the amount for which the C.W.S. at that moment is a debtor or a creditor of the retail society. Reciprocally, it will show the amount for which the retail society is debtor or creditor, for if the Ledger shows that the C.W.S. is a creditor for £50, that must be the amount for which the retail society is a debtor to the C.W.S. A Ledger may be said to be a book in which all the items relating to one person or account are collected on one page, and arranged in debit and credit form. The C.W.S. page in the Ledger, therefore, collects all the items—whether debit or credit—relating to the C.W.S.

This is fairly simple and straightforward as a record of that side of a transaction which affects the firm from which a society has bought goods, or to which it has sold goods. It is when we have to record that side of the transaction which affects the society that the student meets what seems to be a difficulty, though it

ceases to be a difficulty after a little time. We have seen that when the C.W.S. was a creditor we entered an item on the credit side of a page specially set aside for the C.W.S. When the debtor side of this transaction is entered, to show the society a debtor, it is not entered on a page bearing the name of the society, as was the case with the C.W.S. Instead, it may be entered upon any one of a number of pages, according to the nature of the transaction. What happens is that the society is considered to have an unlimited number of sections or departments (not to be confused with departments for grocery, drapery, and other trades), and the debit or credit entry as it affects the society is carried to the account of the appropriate department.

Thus, in the case mentioned above—goods bought from the C.W.S.—the C.W.S. account was credited to show the C.W.S. side of the transaction, and an account known as the "Goods Account," or "Purchases Account," will be debited to show the retail society's side of the transaction, the goods having been received by the goods department, which is, therefore, a debtor for them. When the goods are paid for, the C.W.S. account will be debited with the amount paid, and the retail society will credit its Cash Account, the cash department having parted with the money, and therefore is a creditor for the amount. If the society sold goods, it would debit the purchaser (the receiver) and credit its Goods Account (which parted with the goods); and when it received payment, it would debit the Cash Account (which receives the money) and credit the payer (who parts with the money). Further examples in illustration of this point are given in the next chapter.

The Golden Rule of Double Entry Book-keeping.

It will now be seen that since every transaction involves, in the Double Entry System, a debit entry for the amount represented by the transaction, and a credit entry for a similar amount, the total of the debit entries should agree with the total of the credit entries. If the totals do not agree, a mistake has been made, and the Double Entry System has helped to disclose it. The golden rule of Double Entry Book-keeping may be said to be: "Every debit has a corresponding credit, and every credit has a corresponding debit." The receiver of goods or money is a debtor for what he receives, and the one who hands over goods or money is a creditor for what he parts with in goods or money.

It is necessary to stress the last sentence in the preceding paragraph. The student, until he begins his study of Book-keeping, usually thinks of a debtor as a person who owes something—which is right as far as it goes. He would not be inclined to call a person a debtor when that person is receiving a sum of money that is owing to him. Yet, as we have seen, that person must be considered a debtor for what he receives. Similarly, a person must be considered a creditor when he pays away goods or money—even though that money may be payment of a debt he owes. At the same time, the word debtor is also applied to a person who owes something to another person; and the word creditor is applied to a person to whom another person owes something. In the former case, the debtor's receipts have exceeded his payments to the firm to whom he is a debtor—the firm's debit entries in the debtor's account in its books will exceed the credit entries; and in the latter case, the firm's payments to the creditor are less than the amount credited to the creditor—the firm's credit entries in the creditor's account in its books will exceed the debit entries.

SUMMARY.

Every business transaction involves two persons—a debtor (who is the one receiving goods, money, or some other advantage) and a creditor (who is the one who parts with the goods, money, or other advantage). The entry recording the debtor side of this transaction is known as a debit entry; and the entry recording the creditor side of the transaction is known as a credit entry.

Double Entry Book-keeping derives its name from the fact that both sides of the transaction are recorded in the books of the business. Hence the golden rule of Double Entry Book-keeping: "Every debit has a corresponding credit, and every credit has a corresponding debit." It follows from the application of this rule that the total of the debit entries during any period should equal the total of the credit entries. If the totals do not agree, an error has occurred in the making of the entries.

A Ledger is a book in which a page is reserved for each person or account, and all the entries referring to that person or account are eventually collected on that page. The page is divided into two halves by a line running from top to bottom. The half of the page to the left of this line is known as the debit, or debtor, side, and the abbreviation Dr. is placed at the head of the page on this side, whilst the half of the page to the right of this line is known as the credit, or creditor, side, and the abbreviation Cr. is placed at the head of the page on this side. All debit entries (i.e., those showing a person or account a debtor) are entered on the debit, or Dr., side, and all credit entries (i.e., those showing a person or account a creditor) are entered on the credit, or Cr., side.

The difference between the totals of the two sides, i.e., the Dr. and Cr. sides, of a Ledger Account is known as the balance of account. If the total of the Dr. side is greater, the surplus, i.e., the balance, is a debit, or Dr., balance; if the total of the Cr. side is greater, the surplus, or balance, is a credit, or Cr., balance. The balance of an account with a person shows how much

is owing *to* that person *by* the society, or how much is owing *to* the society *by* that person. If the person's Ledger Account in the books of a society shows a credit surplus, or balance, the person is a creditor of the society for that amount; and, reciprocally, the society is a debtor to the person for the same amount. If the person's Ledger Account in the books of the society shows a debit surplus, or balance, the person is a debtor to the society for the amount of the balance; and, reciprocally, the society is a creditor of the person for the same amount.

When a society has transactions with a person, it debits or credits that person's account as may be required. If the person has received goods or money from the society, his account is debited; if the society has received goods or money from him, then his account is credited. Whilst there is one page in the Ledger to record all the debit and credit entries affecting the person to whom that page is assigned, no *single* account is debited or credited with the items for which the society is a debtor or creditor. Instead, some appropriate internal account is debited or credited. Thus, when the society is a debtor for goods received, the Goods Account is debited; when it is a debtor for other things, other accounts (to be explained later) are debited in similar fashion. When a person has received money from the society, that person is debited as explained above; the corresponding entry, showing the society a creditor, will be a credit entry in the Cash Account. If goods are sold to John Smith, then John Smith's account will be debited and the society's Goods Account will be credited with the amount of the sales. When John Smith pays cash for the goods, the Cash Account will be debited and John Smith's account will be credited.

QUESTIONS AND EXERCISES.

1. What is the golden rule of Double Entry Book-keeping? Explain it by reference to a purchase of goods by a retail society from the C.W.S.

2. What is a Ledger? Give the rulings of a page in a Ledger.

3. Explain how a society is affected as a debtor or as a creditor when it (*a*) receives money from a member, and (*b*) pays for goods it has bought. How does it show itself as a debtor or creditor in its own books in the two cases given?

4. Why should the total of the debit entries during any period agree with the total of the credit entries during the same period? If the two totals do not agree, what would you conclude?

5. What is a debit balance and what is a credit balance of a Ledger Account?

6. Make up a Ledger Account, headed "Cash Account," to show the following items in the books of the A. B. Co-operative Society Ltd.:—

	£
Jan. 1.—Received from A. N. Other	20
,, 2.—Received from Walter Gee	5
,, 2.—Paid Frank Jay	6
,, 3.—Received from Henry Clay	10
,, 6.—Paid George Henry	16

7. Look through the items in Question 6 and indicate the debtor and creditor in each of the transactions there given.

8. In what two ways are the terms "debtor" and "creditor" employed in Book-keeping?

9. Make out a Ledger Account as for the C.W.S. in the books of a retail society, and show in it three items of £30, £20, and £10 respectively for goods purchased, and two items of £30 and £20 for cash paid by the retail society. Where will the corresponding entries completing the double entry be found?

10. What is the principal advantage of Double Entry Book-keeping over Single Entry Book-keeping ?

11. It is said that in Double Entry Book-keeping both sides of every transaction are recorded. Explain this, using the following three items as illustrations :—

Receipt of £5 share capital from Henry Ford.
Purchase of goods from A. Merchant for £50.
Part payment of account to A. Merchant, £30.

12. It is said that the C.W.S. account in the Ledger shows the amount for which the C.W.S. is debtor or creditor to the retail society, and, reciprocally, the amount for which the retail society is debtor or creditor to the C.W.S. Explain the second half of the statement.

CHAPTER III.

THE JOURNAL AND ITS RELATION TO THE LEDGER.

THE WASTE BOOK.

ALL entries relating to a business must have a first entry—a beginning point, though they may be transferred, classified, and arranged many times before they find their final resting-place in the balance sheet of the business. In the olden days, each transaction as it occurred during the day was entered in a book known as the *Waste Book*, from which the entries were afterwards transferred to the appropriate accounts in other books. Such a book—really only a substantial memorandum book—is no longer kept.

THE JOURNAL.

The Limited Use of the Journal.

When the Waste Book went out of use, another book, the *Journal*, was kept, its name indicating its connection with the daily transactions of the business. The Journal, too, has now almost entirely ceased to exist in its original form, and has been replaced by other books which are really sections, or divisions, of the Journal, for they deal with sections of the entries formerly included in the Journal. Thus the Purchases Book, the Expenses Book, and the Sales Book, which will be explained later and the purpose of which is indicated by their name, deal with groups of items that would formerly have been found in the Journal. As Mr. Alfred Wood wrote in *Co-operative Book-keeping*, first published in 1904, there are only two essential books in Book-keeping—the Journal and the Ledger. All the other books are divisions, or sub-divisions, of the Journal or Ledger. The Journal, or its sub-divisions, may be looked upon as the starting point for all the entries, these being afterwards posted to their appropriate accounts in the Ledger. In the Journal the transactions are entered in date order as they occur; but in the Ledger they are classified according to their nature or according to function.

The Journal itself is now retained for only a small number of entries for which a convenient starting point is not found in other books; but it is a very convenient medium for illustrating the principle of double entry and for the working of exercises. The student should remember these limitations and qualifications when reading what follows about the Journal.

What is the Journal?

The Journal, as at present used, is a preliminary, or primary, book of entry, showing the debit and credit entry for each item entered therein. On the right-hand side of each page it is ruled with double cash columns, the first of which is for debit entries, and the second one for credit entries. It also has columns for date, narration, and Ledger folio reference. The following is a typical ruling of a page in the Journal:—

JOURNAL.

Date.	Narration.	Ledger Folio.	*Dr.*			*Cr.*		
			£	s.	d.	£	s.	d.
Jan. 1	Goods Account		50	0	0			
	C.W.S.					50	0	0

The debit and credit entries for each transaction are recorded on successive lines, the debit entry usually preceding the credit entry, as shown in the foregoing illustration, which records a purchase of goods value £50 from the C.W.S. by a retail society whose Journal is being described.*

* This example is given merely for the purpose of providing a simple illustration of the method of entering items in the Journal. As mentioned in an earlier paragraph, purchases are not nowadays entered in the Journal but in the Purchases Book, which is really a sub-division of the Journal and takes the place of the Journal for the recording of purchases. Bearing this in mind, we can follow the entry for goods in the Journal, because it is an example which enables us to explain the double-sided nature of every transaction, as well as to explain the use of the Journal for other items which are the same in principle but too difficult for the beginner to understand at this point. It is a longer process, but not wrong, to journalise purchases; and the employment of the Journal at this stage enables the student to get a better grasp of fundamental principles more easily.

From the Journal to the Ledger.

The entries in the Journal are carried from the Journal to the appropriate account in the Ledger, where they appear on the *same* side as in the Journal.* The Goods Account in the Ledger will be debited, for example, with the £50 shown in the foregoing illustration; that is to say, the item of £50 will appear on the debit side of the Goods Account. The item £50, appearing in the credit column of the Journal for the C.W.S., will be transferred to the credit side of the C.W.S. account in the Ledger. When the items are transferred from the Journal to the Ledger, the page of the Ledger—usually known as a folio—to which each item is transferred is entered in the reference column opposite the item to which it refers.

Example of Journalising.

The journalising of transactions is a good exercise for new students, as it develops in them the capacity to recognise quickly the two-sided nature of each transaction and the accounts in which each side of the transaction is to be recorded. Let us, then, examine the following items and journalise them in the books of the Nonesuch Co-operative Society Ltd. The items are numbered merely for convenience of reference in this explanation:—

		£
(1)	Jan. 1.—Received goods from the Manchester Productive Society Ltd.	30
(2)	,, 2.—Received goods from the Co-operative Printing Society Ltd.	20
(3)	,, 3.—Received cash from John Jones as share capital	80
(4)	,, 5.—Paid Manchester Productive Society Ltd.	30
(5)	,, 6.—Received goods from the Co-operative Wholesale Society Ltd.	20
(6)	,, 6.—Received cash from John Smith as share capital	50
(7)	,, 7.—Received cash for goods sold in shop during week	150
(8)	,, 7.—Paid Co-operative Printing Society Ltd.....	20
(9)	,, 8.—John Jones withdrew from the society share capital.....	10

Item No. 1.—The society has received goods from the Manchester Productive Society, and is therefore a debtor for the value of the goods, whilst the Productive Society is a creditor for the same amount—£30. In accordance with the practice explained in Chapter II., and illustrated by reference to a purchase from the

* Students should note carefully that the items are entered in the Ledger on the same side as in the Journal, which merely indicates the accounts (and the sides of the accounts) in which the two sides of every transaction are recorded. Many students, having noticed in their daily work in the office that items in, e.g., the Cash Book, are posted from the Dr. or Cr. side of one book to the opposite side in the Ledger, are inclined to proceed in the same manner with the items in the Journal. This is wrong. The Journal entries merely tell us where the two sides of every transaction are to be recorded in the Ledger.

C.W.S. in a preceding paragraph in this chapter, when the society is a debtor or a creditor it debits or credits some account of the business according to the nature of what it receives or pays away. As it has received goods in this case, it debits the Goods Account and credits the Productive Society with £30, as follows:—

		£	s.	d.	£	s.	d.
Jan. 1.—Goods Account	*Dr.*	30	0	0			
Manchester Productive Society Ltd.	*Cr.*				30	0	0

Item No. 2. This transaction is similar in type to that covered by item No. 1, and the entry in the journal will therefore be:—

		£	s.	d.	£	s.	d.
Jan. 2.—Goods Account	*Dr.*	20	0	0			
Co-operative Printing Society Ltd.	*Cr.*				20	0	0

Item No. 3.—The society has received cash from John Jones. Being a debtor, it debits the appropriate account—the Cash Account—and credits John Jones (Share Capital Account):—

		£	s.	d.	£	s.	d.
Jan. 3.—Cash Account	*Dr.*	80	0	0			
John Jones (Share Capital Account)	*Cr.*				80	0	0

Item No. 4.—The society has paid the Manchester Productive Society Ltd. the sum of £30. It is therefore a creditor for this amount, and the Productive Society is a debtor. Hence it credits the Cash Account with the amount paid, and debits the Productive Society with the same amount:—

		£	s.	d.	£	s.	d.
Jan. 5.—Manchester Productive Society Ltd.	*Dr.*	30	0	0			
Cash Account	*Cr.*				30	0	0

Item No. 5.—The society has received goods of the value of £20 from the Co-operative Wholesale Society Ltd. The transaction is similar in type to those covered by items 1 and 2, and the entries are therefore similar:—

		£	s.	d.	£	s.	d.
Jan. 6.—Goods Account	*Dr.*	20	0	0			
Co-operative Wholesale Society Ltd.	*Cr.*				20	0	0

Item No. 6.—This transaction is similar to that of item No. 3, and the entry is therefore similar:—

		£	s.	d.	£	s.	d.
Jan. 6.—Cash Account	*Dr.*	50	0	0			
John Smith (Share Capital Account)	*Cr.*				50	0	0

Item No. 7.—This item covers what is sometimes called a double transaction. The society has received £150 in cash for goods sold during the week. In theory, all the purchasers are, in the first place, debtors to the society for the value of the goods they have

received, and the society is a creditor for the same amount—£150. Having paid for the goods, the purchasers are, in the second place, creditors for the same amount, and the society is a debtor for it. The following entries represent what has taken place:—

		£	s.	d.	£	s.	d.
Jan. 1–7.—An unknown number of Purchasers...	*Dr.*	150	0	0			
Goods Account	*Cr.*				150	0	0
„ 7.—Cash Account	*Dr.*	150	0	0			
An unknown number of Purchasers	*Cr.*				150	0	0

It would not be impossible to have a Ledger Account for each purchaser, and to debit him with the amount of his purchases—it is done in manufacturing and wholesale businesses where the purchasers are fewer in number, and it must be done in retail businesses where credit is given; but the task is enormous and unnecessary when the purchases are cash purchases. We can cut out the debit and credit entries as they relate to the purchasers, and we then have left the following entries, which are sufficient for our purpose:—

		£	s.	d.	£	s.	d.
Jan. 7.—Cash Account	*Dr.*	150	0	0			
Goods Account	*Cr.*				150	0	0

It may be noted here that wage payments may be treated as a double transaction. There are others which will be explained later. In general they may be said to be cash transactions.

Item No. 8.—This transaction, a payment of £20 to the Co-operative Printing Society Ltd., is similar in type to that of item No. 4, and the correct entry is therefore:—

		£	s.	d.	£	s.	d.
Jan. 7.—Co-operative Printing Society Ltd.....	*Dr.*	20	0	0			
Cash Account.....	*Cr.*				20	0	0

Item No. 9.—John Jones has withdrawn £10 of share capital from the society. The society, having paid the amount, is a creditor for £10, and John Jones is a debtor. As the cash department has paid the amount, the Cash Account is credited, and John Jones, who has received it, is debited as follows:—

		£	s.	d.	£	s.	d.
Jan. 8.—John Jones (Share Capital Account) ...	*Dr.*	10	0	0			
Cash Account	*Cr.*				10	0	0

Agreement of Debits and Credits not a Proof of Complete Accuracy.

These entries in the Journal complete the record of the transactions given on page 17, so far as the Journal is concerned, and they are therefore set out in the following table in continuous

form, as they would appear in the Journal. From this point the entries are carried to the Ledger Accounts from the Journal. Before entering them in the Ledger it will be well to total the Dr. and Cr. columns of the Journal, in order to see that the totals agree, for a mistake will have been made if they do not agree. We find the total is £410 in each case. It does not follow that there are no mistakes because they agree. An item may have been entered to the wrong account, e.g., to the account of John Jones instead of to the account of John Smith. We have only proved that the total of the credit entries agrees with the total of the debit entries:—

JOURNAL.

Date.	Narration.		Ledger Folio.	Dr. £	s.	d.	Cr. £	s.	d.
Jan. 1	Goods Account	*Dr.*	1	30	0	0			
	Manchester Productive Society Ltd.	*Cr.*	3				30	0	0
,, 2	Goods Account	*Dr.*	2	20	0	0			
	Co-operative Printing Society Ltd.	*Cr.*	4				20	0	0
,, 3	Cash Account	*Dr.*	2	80	0	0			
	John Jones (Share Capital A/c.)	*Cr.*	6				80	0	0
,, 5	Manchester Productive Society Ltd.	*Dr.*	3	30	0	0			
	Cash Account	*Cr.*	2				30	0	0
,, 6	Goods Account	*Dr.*	2	20	0	0			
	Co-operative Wholesale Society Ltd.	*Cr.*	5				20	0	0
,, 6	Cash Account	*Dr.*	2	50	0	0			
	John Smith (Share Capital A/c.)	*Cr.*	7				50	0	0
,, 7	Cash Account	*Dr.*	2	150	0	0			
	Goods Account	*Cr.*	2				150	0	0
,, 7	Co-operative Printing Society Ltd.	*Dr.*	4	20	0	0			
	Cash Account	*Cr.*	2				20	0	0
,, 8	John Jones	*Dr.*	6	10	0	0			
	Cash Account	*Cr.*	2				10	0	0
				£410	0	0	£410	0	0

Entering the Ledger from the Journal.

We may now proceed to enter the foregoing items in the Ledger, remembering to enter each item on the side of the Ledger—Dr. or Cr.—indicated in the Journal, and to enter in each case the Ledger folio reference number in the Journal, and the Journal folio reference number in the Ledger Account. Another important point must be

noticed and have attention. In the narration of each entry we must enter the name of the account where the corresponding entry is to be found. Thus, when entering the first item in the Goods Account in the Ledger, we must write "To Manchester Productive Society Ltd., £30"; and in the account of the Manchester Productive Society we must enter "By Goods Account, £30," or, simply, "By Goods, £30."

It will be noticed that the word "To" prefaces all entries on the Dr. side of Ledger Accounts, and "By" prefaces all entries on the Cr. side of Ledger Accounts. To assist in remembering that "To" precedes "By" in reading the page from left to right, the student should think of the name Toby—To-By—just as he was recommended to think of Dr. Cross as a means of remembering that Dr. precedes Cr. in reading the page from left to right. The correct way of reading an item is "Dr. to" or "Cr. by," e.g., "Goods Account debtor to Manchester Productive Society," or "Manchester Productive Society creditor by Goods."

LEDGER ACCOUNTS.

Page 1.

Dr. GOODS ACCOUNT. *Cr.*

		J.	£	s.	d.			J.	£	s.	d.
Jan. 1	To M/C. Prod. Soc. Ltd.	1	30	0	0	Jan. 7	By Cash.....	1	150	0	0
,, 2	,, Co-op. Pr'tg Soc. Ltd.	1	20	0	0						
,, 6	,, Co-op. Wh. Soc. Ltd.	1	20	0	0						

Page 2.

Dr. CASH ACCOUNT. *Cr.*

		J.	£	s.	d.			J.	£	s.	d.
Jan. 3	To John Jones.	1	80	0	0	Jan. 5	By M/C. Prod. Soc. Ltd.	1	30	0	0
,, 6	,, John Smith	1	50	0	0						
,, 7	,, Goods	1	150	0	0	,, 7	,, Co-op.Pr'tg Soc. Ltd.	1	20	0	0
						,, 8	,, John Jones..	1	10	0	0

Page 3.

Dr. MANCHESTER PRODUCTIVE SOCIETY LIMITED. *Cr.*

		J.	£	s.	d.			J.	£	s.	d.
Jan. 5	To Cash.....	1	30	0	0	Jan. 1	By Goods	1	30	0	0

Page 4.

Dr. CO-OPERATIVE PRINTING SOCIETY LIMITED. *Cr.*

		J.	£	s.	d.			J.	£	s.	d.
Jan. 7	To Cash	1	20	0	0	Jan. 2	By Goods	1	20	0	0

Page 5.

Dr. CO-OPERATIVE WHOLESALE SOCIETY LIMITED. *Cr.*

								J.	£	s.	d.
						Jan. 6	By Goods	1	20	0	0

Page 6.

Dr. JOHN JONES—SHARE CAPITAL ACCOUNT. *Cr.*

		J.	£	s.	d.			J.	£	s.	d.
Jan. 8	To Cash	1	10	0	0	Jan. 3	By Cash.....	1	80	0	0

Page 7.

Dr. JOHN SMITH—SHARE CAPITAL ACCOUNT. *Cr.*

								J.	£	s.	d.
						Jan. 6	By Cash.....	1	50	0	0

With the completion of these Ledger entries, this chapter may well be brought to a close. The chapter is an important one, and the student should not pass from it until he is sure that he has mastered its contents. Without that mastery, succeeding chapters will present difficulties; but with that mastery the contents of succeeding chapters will be more easily understood.

SUMMARY.

All transactions must have a book of primary entry, from which the entries are derived for the Ledger Accounts. The Journal is a book of primary entry. It has a column for the date of each transaction recorded, one for narration, one for the Ledger folio (for reference purposes), and two cash columns—one for debit entries and one for credit entries. The debit and credit sides of each transaction are shown on successive lines.

The Journal is not much used in modern systems of account-keeping, since time is saved by employing, instead, Purchases Books, Sales Books, and certain other books as books of primary entry; but the Journal is still employed for certain transactions that do not find a suitable place of primary entry in other books. It is not wrong, but simply uneconomical to

employ it for all transactions. The Journal is also useful for "drilling" purposes when students are learning the double-sided nature of business transactions, and are applying the principle of "every debit has a corresponding credit," in discovering the correct accounts in which these debits and credits should be recorded. The total of the debit entries should equal the total of the credit entries in the Journal.

The items are transferred from the Journal to the Ledger Accounts—the debit items to the Dr. side of the Ledger, and the credit items to the Cr. side of the Ledger. In the Ledger, the debit items are preceded by the word "To" and the credit items by the word "By." In each account the name of the account in which the corresponding entry is to be found is given in the narration column.

Some transactions are known as "double" transactions. An example of such transaction is a sale of goods for ready money. Instead of first debiting the purchasers and crediting the Goods Account, and afterwards debiting the Cash Account and crediting the purchasers (i.e., the payers), the Cash Account is debited direct, and the Goods Account is credited, the necessity for Purchasers' Accounts being thereby eliminated.

QUESTIONS AND EXERCISES.

1. What is the Journal? For what purposes is it useful?

2. Prepare the rulings for a page of the Journal of the C. D. Co-operative Society Ltd., and enter the following transactions:—

Jan. 1.—Shop takings, £50.
,, 1.—Paid cash for goods, £2.
,, 2.—Bought goods from Co-operative Wholesale Society Ltd., £50.
,, 2.—Shop takings, £40.
,, 3.—Bought goods from Co-operative Boot Society Ltd., £20.
,, 3.—Shop takings, £45.
,, 4.—Paid Co-operative Wholesale Society Ltd., £40.
,, 4.—Received from Charles Howarth, £20, share capital.
,, 4.—Shop takings, £50.

3. What is a "double" transaction, as explained in this chapter? Give an example and show how it should be journalised.

4. If the totals of the debit and credit columns of the Journal agree, how far is it a proof that the entries are quite accurate? What kind of errors might still exist?

5. From the Journal entries, prepared in answer to Question 2, open and enter up the necessary Ledger Accounts to record the transactions.

6. Journalise, and enter in the Ledger from the Journal, the following transactions of a Co-operative Society:—

Feb. 1.—Received £10 share capital from John Lord.
,, 1.—Shop takings for goods sold, £30.
,, 1.—Bought goods from A. Smith, £20.
,, 2.—Shop takings for goods sold, £35.
,, 2.—Bought goods from Co-operative Wholesale Society Ltd., £40.
,, 3.—Shop takings for goods sold, £35.
,, 3.—Paid A. Smith, £20.

7. How would you journalise the following items:—

(*a*) Goods returned to the society by a member, and the amount originally paid by him (£5) refunded by the society.

(*b*) Goods, value £10, returned to the Co-operative Wholesale Society Ltd.

(*c*) A sum of £10 owing to the society paid by the debtor.

8. It is said that only two books are really essential for Book-keeping. What books are they, and how do they resemble and differ from one another ?

9. It is said that the Journal is not now used much in business. For what entries is it still used, and why is it desirable that a student should learn to journalise at this stage of his studies ?

10. Selecting six items of your own choice, show by entries in the Journal that every transaction involves two parties.

11. The Journal is described as a book of "primary entry." What does this mean, and where are the entries subsequently carried ?

12. Should the debits in the Journal agree with the debits in the Ledger ? If there were any difference, how would you explain it ?

CHAPTER IV.

CLASSIFICATION OF RECEIPTS AND PAYMENTS.

RECEIPTS AND PAYMENTS NOT THE SAME AS INCOME AND EXPENDITURE.

IN order to proceed with our explanation of the accounts in the Ledger, it is desirable to deal with the classification of the income and expenditure of a society, but before doing so it is necessary to explain the difference between *Income* and *Receipts*, and between *Expenditure* and *Payments* –a difference not commonly understood, and one giving rise to many errors.

Income and Receipts.

Income consists of money (or a claim to money) coming into the ownership of a person, though not necessarily into his possession. Receipts are payments of money actually received. For example, the interest added each year to the share capital of a member of a Co-operative Society is a part of the member's income, even if he does not draw it from the society. It is only a receipt when he draws it. It may, therefore, be both an item of income and a receipt, but it may be income only and not a receipt. I may sell goods to a person for £20. In making up a statement of income and expenditure, I must take that £20 into account as part of my income, although it is not paid to me (i.e., it is not a receipt) until some date after my statement of income and expenditure has been made up.

Expenditure and Payments.

Similarly, expenditure differs from payments –a statement that is more obvious. I may spend £300 on a motor-car, but spending the money is quite different from the paying of the money, otherwise there would be no bankrupts, for bankrupts are persons who have bought more than they can pay for –their expenditure has exceeded their payments and their ability to pay.

Income and Expenditure Account.

Our income is therefore made up of the amounts for which we become a creditor, whether the amounts are paid to us or not; and our expenditure is made up of the amounts for which we become a debtor, whether we pay these amounts or not. An Income and Expenditure Account shows all our income and expenditure for a certain period, and whether our income has exceeded our expenditure —a position of solvency—or whether our expenditure has exceeded our income, in which case we are going in the direction of insolvency. Persons or firms are insolvent when their liabilities exceed their assets and they are unable to pay their creditors 20s. in the £ for the debts owing to them.

A Receipts and Payments Account and an Income and Expenditure Account compared.

A Receipts and Payments Account shows the actual cash receipts and payments for a certain period, and does not necessarily reflect, exactly, the income and expenditure for that period. A person's income may exceed his expenditure and yet he may have an overdraft at the bank; a person's receipts may exceed his payments and yet he may be carrying on his business at a loss. In the latter case, the person's expenditure will be in excess of his income, but his receipts are greater than his payments because he is paying his creditors more slowly than his debtors are paying their accounts to him. The receipts and payments of a business seldom coincide with the income and expenditure of that business during any one period, though they must be approximately the same when the figures for a number of years are grouped together.

There is much in the foregoing paragraphs that will probably perplex the student, but a thorough understanding of the difference between income and receipts and between expenditure and payments is essential to the perfect keeper of accounts, and the student should not leave the subject until he understands the difference. He will learn later that a Trading Account is of the nature of an Income and Expenditure Account (it takes no account of whether goods or expenses are paid for or not), and a Cash Account and Bank Account are of the nature of a Receipts and Payments Account.

In a Receipts and Payments Account the *receipts* are entered on the Dr. side, for the business is a debtor for them; and the

payments are entered on the Cr. side, for the business is a creditor for them. In an Income and Expenditure Account the *income* is entered on the Cr. side, for the business is a creditor for the value of the goods supplied or services rendered to produce the income, whilst the persons to whom they have been supplied are debtors; and the *expenditure* is entered on the Dr. side, for the business is a debtor for what it has bought and/or for the expenses it has incurred, whilst those who have supplied the goods or services are creditors.

RECEIPTS AND PAYMENTS.

(a) DIFFERENT CLASSES OF RECEIPTS.

The money received by a Co-operative Society comes from a variety of sources, and is paid to it for a variety of reasons. New members often have to pay a small amount as entrance fee when they join the society, and they may have to pay for a copy of the rules and for a pass book. Members, new and old, contribute various sums as share capital from time to time, and both members and non-members may make deposits as loan capital or as savings-bank deposits. The society may be a shareholder in the C.W.S. or other Co-operative Society, and receive interest upon the amount so invested, or it may be a shareholder in a limited company, in which case the return upon its share investment is called dividend, and amounts of dividend will be received from time to time. A society may have lent money as loan capital to the C.W.S., to other Co-operative Societies, to companies, to municipalities, to the Government (e.g., war loan), or it may have lent money to members to purchase a house. Having lent money to any of these bodies or persons, the society is entitled to receive interest upon the amount lent, and such interest, when paid by the borrower of the money, is a receipt so far as the society is concerned. From time to time shares are sold or withdrawn by the society, or loans are repaid to the society by the borrower, and the sums thus passing into the hands of the society are receipts. The society sells goods to members, and, perhaps, to non-members, and when the purchasers pay for the goods—either at the time of purchase or later—the society treats the amount paid to it as a receipt. There are other kinds of receipts, such as those arising from the sale of houses, buildings or machinery, from house rents and rents of halls, and from other less important sources, such as the sale of stamps or the receipt of deposits in connection with the clubs that societies

organise to enable members to pay small sums weekly until they have sufficient to buy some expensive article they desire.

The Main Classes of Receipts.

These various receipts can be grouped into two main classes, each of which can be further divided. These main classes are (1) Capital Account receipts, and (2) Revenue Account receipts. A minor class is Sundry receipts, consisting of receipts of minor importance to the business operations that do not properly belong to either class, e.g., money received on account of some other person to be handed to that other person.

What is Capital and What are Capital Account Receipts?

A business requires capital—buildings have to be bought or rented, wages and other expenses have to be paid, and goods have to be purchased. The business cannot function unless it has money that can be laid out for these purposes. Money so applied is capital. Capital, to the accountant, is, therefore, money invested in a business for the purpose of enabling the business to be carried on; and Capital Account receipts include contributions of share capital, loan capital, savings bank deposits, repayments to the society of shares and loans that have been held in outside concerns, and money received for the sale of things in which the society does not deal as part of its ordinary business but which it employs for the purpose of securing revenue, e.g., houses, land, buildings, machinery, etc.*

Revenue Account Receipts.

Revenue Account receipts are those arising out of the *employment* of the society's capital. Thus, a part of the society's capital, in the form of buildings, etc., is employed to carry on trading operations—the selling of goods—and these operations produce Revenue Account receipts. Another part of the capital is invested in shares or loans in other societies or companies, and the dividend or interest received on these shares or loans is a Revenue Account receipt. The shares or loans themselves are in the category of capital, and any alteration in their amount is a Capital Account item; but the interest or dividend from them is a Revenue Account item. The sale of a house produces a Capital Account receipt, but the rent of the house when paid is a Revenue Account receipt.

*If a society was formed to build, or buy, and sell houses, or to make and sell machinery, the sale of these houses and machinery would produce Revenue Account receipts, not Capital Account receipts.

Classification of Capital Account Receipts.

The Capital Account receipts can be divided into (1) Share Capital receipts, (2) Loan Capital receipts, (3) Savings-bank receipts, and (4) other receipts of a capital nature, such as investments withdrawn, houses sold, etc. The last-named class will be dealt with more fully in a later chapter. It is necessary to notice the first three classes of receipts at this stage, because of their importance and the frequency with which they are to be found in the receipts of a society.

Classification of Revenue Account Receipts.

Almost all Revenue Account receipts are either (1) Trading Account receipts, or (2) Investments Revenue Account receipts. Money received for goods sold is obviously a Trading Account receipt, for it arises out of trading transactions. Dividend on purchases received from the C.W.S. is likewise a Trading Account receipt, for it arises out of the trading operations of the society with the C.W.S. Interest received on shares or loans is clearly an Investments Revenue receipt, because it arises from an investment; and so is interest received on the balance at the bank, or on the debts owing by members. House rents received by a society are receipts from an investment in house property, and are therefore treated as an Investments Revenue receipt.

In the Standard Balance Sheet adopted by the Co-operative Congress at Southport in 1925 a further class of revenue receipts is recognised—receipts from sundry earnings that do not belong either to the Trading Account class or the Investments Revenue class of receipt. These earnings find a resting-place in a Final Revenue Account, but such receipts are few in number, and they may be dismissed at this stage with this brief reference. They will be considered and explained at greater length in a later chapter dealing with the Final Revenue Account.

(*b*) DIFFERENT CLASSES OF PAYMENTS.

Having now noticed the different classes of receipts, we may turn our attention to the classification of payments. There are two principal classes of payments, just as there are two principal classes of receipts, and they bear the same names: (1) Capital Account payments, and (2) Revenue Account payments. As there was a minor class of receipts, known as Sundry receipts, so there

is a minor class of payments, which includes items not belonging to any other class and not affecting either the capital or the revenue of the society. These will be explained at a later stage and need not trouble us further at this point. There is, in addition, a fourth class of payments, for which there is no corresponding class of receipts. It includes payments made out of the surplus (or profits) of the society. These payments, like the third class of payments just mentioned, do not, as such, affect the capital or the revenue of the society.

What are Capital Account Payments and Revenue Account Payments?

The Capital Account payments include such items as repayment of Share Capital, Loan Capital, and Savings-bank deposits; the payment of amounts to other persons or bodies for investment in the society's name in shares or loan; payments for the purchase of land, houses, or other buildings, or for machinery and similar things that produce, or help to produce, revenue; and some other payments of relatively minor importance that will be explained more fully in later chapters.

Revenue Account payments are those arising out of expenditure affecting the revenue of the society. They are payments made for those goods, services, or other benefits received that have to be taken into account in ascertaining whether the business is being carried on at a loss or not.

Classification of Capital Account Payments.

The principal classes of Capital Account payments are (1) Share Capital repaid to members; (2) Loan Capital repaid to members and others; (3) Savings-bank deposits repaid to depositors; (4) other payments of a Capital Account nature, such as amounts invested by the society in shares and loans, amounts expended to purchase land, houses, and other buildings, machinery, and other assets of a similar nature employed to enable the society to carry on its business and not embodied in the articles sold by the society. The test, whether an item is a capital item, is more fully discussed under the heading of " Expenditure," in Chapter V.

Classification of Revenue Account Payments.

Revenue Account payments may be divided into two principal classes and one minor class, as were Revenue Account receipts.

The principal classes are (1) Trading Account payments, and (2) Investments Revenue payments. The minor class is referred to below.

Trading Account payments include payments for goods bought for re-sale, either in a changed or unchanged condition; for paper and string, for wages, for rent, for gas and water, for telephone charges, and for the many other expenses incurred in carrying on the trading operations of the society. These represent some commodity or service completely exhausted in bringing the goods to the condition in which they are demanded by purchasers. They thus differ from capital items like land, buildings, and machinery, which perform a service in bringing the goods to a condition acceptable to the purchaser, but still remain available for further service in later trading periods.

Investments Revenue payments include payments of interest on investments with the society in the form of shares, loans, or savings-bank deposits, and payments for expenses incurred in connection with house property or other property not used for trading purposes.

The minor class of revenue payments do not fall into either of the above principal classes. The transactions they represent are included in the Final Revenue Account of the Standard Balance Sheet. They are mentioned below, and will be explained in detail when that account is reviewed and explained in a later chapter.

The most important item in the minor class of Revenue Account payments, i.e., those connected with the items of the Final Revenue Account of the Standard Balance Sheet, is the education grant, *when this is not a disbursement from the surplus*. Another important item in this group is the premium for collective life assurance, or payments on account of death benefits, and still another is the payment of certain subscriptions that are chargeable against revenue, but not against the trading revenue or the investments revenue.

Payments other than Capital and Revenue Payments.

The final class of payments includes payments from the surplus, or profits. This class includes the education grant when it is based upon the surplus and chargeable against the surplus. It also includes donations and subscriptions paid out of the surplus, and

many sundry gifts of various kinds. Payments of this class are described as payments out of the "Disposable Balance," this being the amount of the surplus, or profits, left after certain prior charges have been met.

A CASH ACCOUNT IS A STATEMENT OF RECEIPTS AND PAYMENTS.

The student has probably already grasped the connection between a statement of receipts and payments and a Cash Account. A Cash Account is a statement of receipts and payments, and if the Cash Account of the Standard Balance Sheet is examined by the student, he will find that it agrees with the explanation given in this chapter, except that, for convenience, interest on investments with, and by, the society are included with the capital items to which they refer. The various items are grouped under the various headings as follows, the Cash Account being Dr. for amounts received and Cr. for amounts paid.

Dr. CASH ACCOUNT. *Cr.*

RECEIPTS.	£ s. d.	PAYMENTS.	£ s. d.
Capital Account—		*Capital Account*—	
To various items.....		By various items.....	
Sundry Items—		*Sundry Items*—	
To various items.....		By various items.....	
Trading Account—		*Trading Account*—	
To various items.....		By various items.....	
Investments Revenue and Final Revenue A/cs.—		*Investments Revenue and Final Revenue A/cs.*—	
To various items.....		By various items.....	
		Disposable Balance A/c.—	
		By various items.....	
Total .....£		Total.....£	

Under the heading of Capital Account on the Receipts side, contributions of share capital, loan capital, savings-bank deposits, and similar items are entered as explained in the paragraph on Classification of Capital Account receipts. The Sundry items include items received for paying out again, such as collective life assurance claims from the Co-operative Insurance Society, and also items like employees' guarantee deposits which do not exactly fall into the class of Capital Account receipts or into that of Revenue Account receipts.

Revenue Account receipts are divided into two groups: the receipts connected with items in the Trading Account (e.g., receipts

for goods sold) and the receipts connected with items in the Investments Revenue and Final Revenue Accounts.

On the Payments side, the classification is similar to that on the Receipts side. Capital Account payments include repayment of share and loan capital to members and others, payments for land, buildings, machinery, etc., and investments in shares and loans in the C.W.S. and other bodies, etc. Sundry items include payments of amounts like collective life assurance payments that have been received to be paid out again, or are payments from some special fund, whilst the Revenue Account payments are divided into two groups as were the Revenue Account receipts. These two groups are (1) Trading Account payments (covering payment for goods and expenses), and (2) payments connected with the items in the Investments Revenue Account and Final Revenue Account. A fifth group is payments out of the surplus, i.e., payments according to the Disposable Balance Account in the balance sheet.

This chapter is already a long one, and an explanation of the classification of income and expenditure is therefore deferred to the next chapter.

SUMMARY.

Receipts and Payments are not the same as Income and Expenditure. Receipts consist of moneys actually received, whilst income consists of what one is entitled to receive whether it is actually received or not. I sell goods to Smith for £20. The £20 is part of my income; it does not become a receipt until I receive the £20 in cash. Expenditure consists of what one spends, whether one pays for what is bought or not. I buy a horse for £40. My expenditure is £40; but not until I have paid for the horse have I made a payment. Only when all transactions are for cash do the receipts and payments coincide with the income and expenditure. Usually they do not agree in any one selected period, but over a number of years they must approximately agree. A Cash Account is a statement of receipts and payments. A Trading Account shows income and expenditure arising from trade.

Receipts may be classified as (1) Capital Account receipts, (2) Revenue Account receipts, and (3) Sundry receipts that affect neither the Capital Account nor the Revenue Account. An example of the last-named class is money received for some other person to be handed to him.

Capital, to the accountant, is money invested in a business for the purpose of enabling the business to be carried on. It is employed to produce revenue, either directly or indirectly. Revenue income (which gives rise to revenue receipts) results from the employment of capital. The rents received for a house are revenue receipts; the sale of the house produces a Capital Account receipt. A loan investment is a Capital Account item; the interest on the loan is a Revenue Account item. A shop is a capital item; the receipts from the trade carried on in the shop are a revenue item.

Capital Account receipts can be divided into (1) share capital receipts, (2) loan capital receipts, (3) savings-bank receipts, (4) other receipts of a capital nature.

Revenue Account receipts can be divided into (1) Trading Account receipts, e.g., for goods sold; and (2) Investments Revenue Account receipts, e.g., interest received on shares and loans. The Standard Balance Sheet recognises a third class of revenue receipts of minor importance, that are neither Trading Account revenue nor Investments Account revenue. They find a resting-place in the Final Revenue Account in the balance sheet.

Payments may be classified as (1) Capital Account payments, (2) Revenue Account payments, (3) Sundry payments not affecting capital or revenue, e.g., in-and-out payments, and (4) Payments from the balance of the surplus, or profits, known as the "Disposable Balance."

Capital Account payments may be divided into (1) Share Capital repayments, (2) Loan Capital repayments, (3) Savings-Bank repayments, (4) other payments of a capital nature such as payments for land, buildings, machinery, horses, shares, etc., which produce a revenue either through their employment in the society's business or in the form of interest or dividend.

Revenue Account payments may be divided into (1) Trading Account payments, e.g., for goods bought or wages paid, (2) Investments Revenue Account payments, e.g., payments of interest on borrowed money or expenses incurred for house property or other property not used in trade, and (3) other revenue payments which are of a minor character and are neither Trade Revenue payments nor Investments Revenue payments.

The Cash Account in the Standard Balance Sheet classifies the receipts and payments in accordance with the explanations given in this chapter, except in the case of interest on investments (in, or by, the society). Because some interest is added to the capital to which it refers before it is paid, all interest received or paid is entered in the Cash Account of the Standard Balance Sheet in the same section (Capital Account section) as the capital items from which it arises.

QUESTIONS AND EXERCISES.

1. Explain "Income," "Expenditure," "Receipts," and "Payments," giving one example of each.

2. Explain the difference between a "Receipts and Payments Account" and an "Income and Expenditure Account."

3. Classify the following items as Receipts, Payments, Income, and Expenditure, indicating both features in the double transactions:—

(*a*) Jan. 1.—Borrowed £50 from A. Lord.
(*b*) ,, 1.—Bought a horse for £20.
(*c*) ,, 2.—Sold a motor-car for £250.
(*d*) ,, 3.—Paid for the horse bought on January 1st.
(*e*) ,, 3.—Bought some shares for £50 and paid cash down for them.
(*f*) ,, 4.—Received money for motor-car sold on January 2nd.
(*g*) ,, 5.—Received for goods sold over the counter, £5.
(*h*) ,, 6.—Lent John Smith £50.
(*i*) ,, 6.—Paid wages, £20.
(*j*) ,, 6.—Gave £5 to the local hospital.

4. A person's receipts may have exceeded his payments and yet he may be insolvent. Explain how this can be.

5. A person's income may be in excess of his expenditure and yet he may have an overdraft at the bank. Explain how this can be.

6. What is the difference between Capital receipts and Revenue receipts? Give two examples of each to illustrate the difference.

7. Into what classes may payments be divided and sub-divided? Give an example of each sub-class.

8. From the data given in Question 3 prepare a statement of Receipts and Payments, omitting any irrelevant items.

9. Under what group headings are the Receipts and Payments classified in the Standard Balance Sheet? Draw up a balance sheet showing these group headings.

10. From the following data make out an Income and Expenditure Account and a Receipts and Payments Account for the Paragon Co-operative Society Ltd.:—

Jan. 1.—Received from John Smith, £50 as share capital.
,, 2.—Bought goods value £40 from the C.W.S.
,, 2.—Sold goods value £30 to members, cash being paid at time of purchase.
,, 3.—Paid wages due this day, £10.
,, 3.—Received an account for £3 for carriage.
,, 3.—Paid C.W.S. £40 owing for goods.
,, 4.—Sold goods value £40 to members, cash being paid at the time of purchase.
,, 4.—Notified that the A.1 Productive Society had added £10 to society's loan capital for interest due December 31st last.
,, 5.—Paid the carriage account, £3.

11. On which side of the account—Dr. or Cr.—would you expect to find a cash purchase of goods in a society's Revenue Account (i.e., Income and Expenditure Account) and its Receipts and Payments Account?

12. Is a trader making a profit if his receipts exceed his expenditure during any selected trading period? Give reasons for your answer.

CHAPTER V.

CLASSIFICATION OF INCOME AND EXPENDITURE.

WHAT CONSTITUTES INCOME AND EXPENDITURE.

HAVING discussed the classification of *Receipts* and *Payments*, we can undertake the classification of *Income* and *Expenditure* with an amount of preliminary knowledge that will make the task easier.

At the outset, it is desirable to remind ourselves once more that income is not the same thing as receipts, and expenditure is not the same thing as payments. This was explained in the last chapter, but illustrations additional to those contained in the last chapter may now be given of the difference.

Income.

Income may be said to arise where there is a receipt of money, or where a right to the receipt of money is created, in return for goods supplied, or for some service or benefit given or promised by the person to whom the income is due. It is clear that income differs from a receipt. There may be a right to receive money without that right being satisfied at the same time. It should also be noticed that some receipts are not income. If a society has £200 lying at the bank and withdraws it, there is a receipt but no income for the society.

Expenditure.

It will be convenient to examine expenditure by giving comparisons of expenditure and payments. If a society repays £100 which it has borrowed, there is a payment, but no expenditure; if a society pays a donation of £5 to some institution without expecting anything in return, there is a payment, but no expenditure; the payment of dividend to members is clearly a payment, but it is not expenditure. *Expenditure may be said to arise when a payment of money has been made, or promised, in exchange for something intended to be of service to the person expending the money.*

If a society buys a shop or a horse, there is expenditure, whether it is paid for or not; if a society buys a sack of flour or a truck of

coal, there is expenditure; if a society employs a man to sell goods in the shop, or deliver bread, or clean windows, there is expenditure. Payment may be made at the time the goods are ordered or delivered, or it may be made at some later date; but the act of paying is different from the act of spending. Whether good value is obtained for the expenditure is not material so far as the definition is concerned. If a society bought a horse that was almost worthless there would still be expenditure. There are different classes of expenditure, and these are explained in a later paragraph. Our purpose at this point is to get a clear conception of what expenditure really is, and how it differs from payments.

EXPENDITURE AND INVESTMENT.

We may next notice a matter which is a little less clear because the practice of business men in using some terms is not uniform. If a machine for roasting coffee were purchased by a society, accountants would be agreed in giving the name expenditure to the outlay, and would speak of it as "capital" expenditure, because the machine is something of a somewhat permanent character employed to produce a revenue without changing its form or ownership. This distinguishes it from revenue expenditure, e.g., expenditure on goods for re-sale or on labour for making or selling goods. But if £100 were spent in buying some shares, this outlay would generally be spoken of as an investment and not as expenditure. Really, both cases are cases of expenditure, and both are cases of investment; both the coffee roaster and the shares are intended to produce an income. The chief differences are (1) that the coffee roaster is employed in the business itself, and the £100 is invested outside the business —the one helps to produce trading income, the other produces what is described, for the purpose of distinction, as investment income; and (2) at the end of twenty years the coffee roaster might be worn out and worthless, whilst the society's right to the full £100 of shares would still be intact. The term "investment" is generally employed in the narrow sense to mean an outlay of money in shares or loans which can be re-converted into cash, and which will produce interest or dividends in the meantime; but there is a wider sense, in which the term is also employed to include an outlay of money in land, buildings, and machinery, for the purpose of producing an income through the processes of production or trade. We may note this difference of phraseology

respecting an expenditure of £100 invested in machinery, or land, or buildings, by the society, and £100 invested in shares, and follow the more general practice and speak of the first-named type of expenditure as "capital expenditure," and the second-named as "investment expenditure," or speak of it more simply as an investment. These distinctions must be borne in mind in classifying expenditure.

We may now proceed to examine the various classes of Income and Expenditure.

(a) DIFFERENT CLASSES OF INCOME.

Income may be divided into two main classes (*a*) *Capital Income* and (*b*) *Revenue Income.*

Capital Income.

Capital income consists of share, loan, and savings-bank receipts, which give the payer a right to receive a return from the receiver for the use of the capital (e.g., interest); and it arises also where a building, or any similar item that has been the subject of capital expenditure, is sold. Such income is reflected in the various special accounts, known as Capital Accounts, in the books of the society, e.g., Share Capital Account, Buildings Account, etc., which will be explained later; and at the end of a trading period it is reflected in the statement of assets and liabilities contained in the balance sheet. Some societies publish in their balance sheet a statement or account showing the capital income and expenditure; but it is not a universal practice to do so. An example of such statements is given in Part II. of this book, dealing with the Registrar's Annual Return. They form optional accounts in that return.

Revenue Income.

Revenue income is income arising from the business operations of the society. It may be divided into (*a*) *Trading Income*; (*b*) *Investment Revenue Income*; and (*c*) *Minor Items of Revenue Income.*

TRADING INCOME is the income that arises from trade. The sale of goods in the shops or from the society's carts produces trading income; the rendering of services by the transport department, or the laundry, or the works department, or the window-cleaning department, also produces trading income. We may say that the earnings of the trading departments are trading income.*

* Trading income is eventually recorded on the credit side of a society's Trading Account.

INVESTMENT REVENUE INCOME is the income arising from the return upon investments, but does not include the investments. Investments may be shares upon which interest or dividend is paid to the society, or they may be loans or bank balances, or debts owing to the society, upon all of which interest is paid to the society; or they may be house property or other property which is let, and for which rents are paid to the society. Investment revenue income is a return upon the capital of the society. Some of the capital of the society is employed, or invested, in stocks of goods for sale. Interest upon the amounts so used by the trading departments is charged to these departments in a Co-operative Society, and this interest is recorded in the Investments Revenue Account as income arising from the employment of the capital of the society, as also is the interest charged to the house property department for the capital invested in houses. These items of interest, dividends, and house rents make up the investment revenue income.*

THE SUNDRY ITEMS OF REVENUE INCOME that are not trading income, or investment revenue income, or capital income, are few in number, and can be more conveniently explained later.†

(b) DIFFERENT CLASSES OF EXPENDITURE.

Expenditure may be classified under two principal headings, as (*a*) *Capital Expenditure*, and (*b*) *Revenue Expenditure*.

Capital Expenditure.

This is expenditure upon shops and other buildings, or expenditure upon machinery, fittings, and fixtures, employed to carry on the business of the society, and intended to remain in the ownership of the society for continuous use for revenue-producing purposes. Capital expenditure differs from trading expenditure, which is for goods and services that are embodied in the articles sold during the trading period, and of which nothing is left when the goods are sold. The items upon which money is spent in the case where there is capital expenditure still remain at the end of the trading period. The shop, the land upon which it stands, the shop fixtures, the bacon-slicing machine, etc., all remain at the end of the period. In a bakery, the ovens, the racks,

* These items constitute the entries on the credit side of the Investments Revenue Account in the balance sheet.

† They find a resting-place on the credit side of the Final Revenue Account in a society's balance sheet.

the engine and boiler, and the other machinery, all remain at the end of the period. Money expended upon such objects is, therefore, capital expenditure, whilst money spent upon flour, in the case of the bakery, is trading expenditure, for the flour does not remain after the bread has been made and sold. The dressmaker's sewing machine involves capital expenditure; the cloth and thread used by the dressmaker involve trading expenditure. The purchase of a house involves capital expenditure; but repairs to a house involve revenue expenditure, but of a different class from trading expenditure.

It is important for the student to recognise quite clearly the difference between capital expenditure and revenue expenditure, and repetition of an explanation of this difference, if wearisome, may, nevertheless, be desirable. Capital expenditure is the expenditure upon those objects which are not bought for re-sale, but remain at the end of the trading period to continue their service in other trading periods; whilst revenue expenditure is incurred for (*a*) goods that are to be sold in the same or altered form; or (*b*) for expenses incurred solely in preparing those goods for sale, leaving no remaining value when the goods are sold; or (*c*) for some purpose affecting the financial results of the society's complete operations, whether trading operations or not, e.g., repairs to house property. The purchase of a shop or house (both capital expenditure) does not of itself alter the surplus of a business; but the expenses incurred in repairing the shop or house (revenue expenditure in both cases) do affect the financial results.

Depreciation.

It is true that a shop or machine is not usually worth as much at the end of a trading period as it was at the beginning. It is said to have depreciated. It is right and proper, therefore, to charge the trade of each period with the amount by which the shop or machine has depreciated during that period, for the trade has benefited by the use that has caused the depreciation. Such a charge is known as a charge for depreciation, and as it would be difficult or costly, and perhaps impossible, to ascertain the exact amount of the falling off in value of every article of a capital nature, it is customary to fix this charge as a percentage of the cost of the shop, the machine, or other item of capital expenditure. This percentage is based upon the expected "life" of the asset,

e.g., if the asset is expected to last twenty years, then 5 per cent per annum of the original cost would be a correct charge for depreciation. The subject of depreciation is an important one, and a fuller discussion of it is reserved for a later chapter. It is mentioned here because of its bearing upon capital expenditure, and in order to help the student to obtain a clearer understanding of capital expenditure and its relation to the trading operations and results.*

Revenue Expenditure.

Revenue expenditure, as has already been explained, is expenditure upon things not of a capital nature. Expenditure upon goods for re-sale is revenue expenditure, so is the expenditure upon repairs to the shop or to houses owned by the society. Revenue expenditure can be conveniently divided into (*a*) *Trading Expenditure*, (*b*) *Investment Revenue Expenditure*, and (*c*) *Minor Items of Revenue Expenditure which do not fall into classes* (*a*) *or* (*b*).

TRADING EXPENDITURE itself can be classified into (1) expenditure upon goods, and (2) other trading expenditure. In a grocery business, for example, goods are bought for re-sale—that is, expenditure upon goods. But, in addition, wages must be paid to the shopmen, rent and rates must be paid for the shop, and charges for gas and electricity are incurred. These, and many other expenses, have to be met. They are part of the trading expenditure. Separate records of each class of expense must be kept; and these expenses and records will be explained in detail at a later stage. These trade expenses, i.e., all the trading expenditure other than expenditure upon goods, we shall for the present group together as "other trading expenditure."†

INVESTMENT REVENUE EXPENDITURE includes interest payable by the society upon shares, upon loans, upon savings-bank deposits, and upon any overdraft at the bank. It also includes expenses incurred in connection with house property or other property which is not used in trade, but looked upon as an investment.‡

The items of capital expenditure are added to their respective accounts: land and buildings to the Land and Buildings Account, machinery to the Machinery Account, fixtures to the Fixtures Account; and after depreciation for the period has been deducted, the value of these assets is entered in the statement of assets and liabilities in the balance sheet at the end of the period. Some societies, as mentioned on page 38, publish a statement showing capital income and expenditure, and such a statement shows how the amounts given in the statement of liabilities and assets have been derived.

†The expenditure upon goods constitutes, with other trading expenditure, the items to be found on the Dr. side of the Trading Account in the balance sheet.

‡ These expenses are entered on the Dr. side of the Investments Revenue Account.

THE SUNDRY ITEMS OF REVENUE EXPENDITURE which occur most frequently are collective life assurance premiums, death benefits paid, and the allocation or expenditure for educational purposes when not paid out of the society's surplus.*

STATEMENT OF INCOME AND EXPENDITURE.

We may now bring together the various groups of income and expenditure which have been explained in this chapter, and it will be an advantage to do so in parallel columns headed respectively expenditure and income. For reasons given on page 27, expenditure appears on the Dr. side, and income on the Cr. side.

Dr. *Cr.*

Expenditure.	£ s. d.	Income.	£ s. d.
Capital Expenditure.....		Capital Income	
Revenue Expenditure—		Revenue Income	
(*a*) Trading Expenditure..		(*a*) Trading Income	
(*b*) Investment Revenue Expenditure		(*b*) Investment Revenue Income	
(*c*) Minor Items of Revenue Expenditure...		(*c*) Minor Items of Revenue Income	
Total Expenditure ...£		Total Income..... £	

A statement in the foregoing form, covering the transactions for a period, would show the income and expenditure for that period. It is not customary, however, to record the capital income and capital expenditure in such a statement, for, as mentioned on page 38, and in the footnote on page 41, these are reflected in the changes in the values of the assets and liabilities between the date of one balance sheet and the date of the next; and the assets and liabilities are shown in another account in the balance sheet. Eliminating these capital items, there are three groups left on each side, and the difference between the totals of the two sides shows whether the revenue income has exceeded or fallen short of the revenue expenditure during the period covered by the statement. The statement, therefore, shows whether the operations of the society whose transactions have been recorded have produced a surplus or deficiency (or profit or loss in businesses trading for profit). The following statement will serve as an illustration:—

* These items appear on the Dr. side of the Final Revenue Account in the balance sheet.

STATEMENT OF INCOME AND EXPENDITURE
or
Dr. REVENUE ACCOUNT. *Cr.*

Expenditure.	£	s.	d.	Income.	£	s.	d.
Trading Expenditure.....	400	0	0	Trading Income	500	0	0
Investment Revenue Expenditure.....	200	0	0	Investment Revenue Income	220	0	0
Minor Items of Revenue Expenditure.....	40	0	0	Minor Items of Revenue Income	40	0	0
Total Expenditure....	£640	0	0				
Balance of Income over Expenditure.....	£120	0	0				
	£760	0	0		£760	0	0

The difference between the totals of the two sides—surplus income or expenditure—is inserted on the lesser side and added to the other items on this side to produce a total equal to the total on the greater side. An account of the nature of an Income and Expenditure Account is known as a Revenue Account. It shows revenue income and revenue expenditure.

DIVISIONS OF THE STATEMENT OF INCOME AND EXPENDITURE.

In practice, instead of there being one account in the balance sheet showing the whole of the income and expenditure, there are three accounts in the balance sheet of a Co-operative Society—Trading Account, Investments Revenue Account, and Final Revenue Account. The division of the account into three parts need not present any difficulty, for the division follows the grouping already explained.

In the Trading Account we find the trading income and expenditure recorded; in the Investments Revenue Account we find the investments revenue income and expenditure recorded; and in the Final Revenue Account there are recorded those minor items of revenue income and expenditure, already mentioned, which do not find a resting-place in either of the previous two accounts. By carrying the balance (surplus or deficiency) of the Trading Account and the balance (surplus or deficiency) of the Investments Revenue Account to the Final Revenue Account, and by including these balances when totalling the Final Revenue Account, we ascertain the net balance (surplus or deficiency) of the income and expenditure as a whole, and gain the additional advantage of learning the surplus or deficiency on the Trading

Account and the Investments Revenue Account. We may now visualise the Income and Expenditure Account already given, but divided into the three accounts, with the same figures inserted as before, and with the accounts balanced, in order that we may grasp their relationship more readily. These accounts should be compared with the Income and Expenditure Account just given, which contains the same items.

Dr. TRADING ACCOUNT. *Cr.*

	£	s.	d.		£	s.	d.
To Trading Expenditure...	400	0	0	By Trading Income.....	500	0	0
,, *Balance carried to Final Revenue Account*.....	100	0	0				
	£500	0	0		£500	0	0

Dr. INVESTMENTS REVENUE ACCOUNT. *Cr.*

	£	s.	d.		£	s.	d.
To Investments Revenue Expenditure	200	0	0	By Investments Revenue Income	220	0	0
,, *Balance carried to Final Revenue Account*	20	0	0				
	£220	0	0		£220	0	0

Dr. FINAL REVENUE ACCOUNT. *Cr.*

	£	s.	d.		£	s.	d.
To Sundry Items of Expenditure	40	0	0	By Sundry Items of Income	40	0	0
,, *Balance Surplus of Income over Expenditure*	120	0	0	,, *Balance brought from—* (*a*) *Trading Account*....	100	0	0
				(*b*) *Investments Revenue Account*	20	0	0
	£160	0	0		£160	0	0

This surplus of £120 agrees, it will be noticed, with the £120 surplus arrived at on page 43 before the Income and Expenditure Account was divided into three parts. Each of these three accounts may be correctly described as a Revenue Account.

CONCLUSION.

In this and the preceding chapter we have considered a statement of receipts and payments, and a statement of income and expenditure. The former statement does not necessarily tell us what has been spent or earned, and the latter does not necessarily tell us what has been received or paid. Both statements are required

for complete information about a business. Those in charge of a business require a record of what money has been received and paid; and from this record the balance of cash in hand and at the bank can be ascertained: the statement of receipts and payments, i.e., the Cash Account in the balance sheet, is such a record. They also desire to know whether the business is being conducted in such a way that its income is more than its expenditure, and the three parts of the statement of income and expenditure, i.e., the Trading Account, the Investments Revenue Account, and the Final Revenue Account, supply this information.

SUMMARY.

Income may be said to arise where there is a receipt of money, or where a right to the receipt of money is created, in return for goods supplied, or for some service or benefit given, or promised, by the person to whom the income is due.

Expenditure may be said to arise when a payment of money has been made, or promised, in exchange for something intended to be of service to the person expending the money.

Some forms of expenditure are spoken of as investments, e.g., money invested in loans and shares outside the business; and expenditure upon land, buildings, and machinery intended to produce a revenue by use in the business is often, but less frequently, spoken of as an investment, and is more usually described as capital expenditure.

Income may be classified as (*a*) Capital Income, and (*b*) Revenue Income.

Capital income consists of money received by a business for the purpose of carrying on the business, and these receipts carry a right for the payer of the money to receive for its use a return in the nature of interest or dividend from the receiver of the money. Capital income also includes the amount derived from the sale of any asset of a capital nature.

Revenue income is income arising from the carrying on of the operations of the business with the aid of the capital. It consists of (*a*) Trading income arising from trade, (*b*) Investment revenue income arising from investments of various kinds, and (*c*) minor sources of revenue income.

Expenditure may be classified as (*a*) Capital Expenditure, and (*b*) Revenue Expenditure.

Capital expenditure is expenditure upon objects of a somewhat permanent nature employed to carry on the operations of the business, e.g., land, shops, bakeries, machinery, shop fixtures.

Revenue expenditure consists of expenditure incurred during any period solely and exclusively in preparing goods for sale during that period, or of other expenditure necessary to produce revenue and not added to the value of the society's assets. It includes (*a*) Trading expenditure, (*b*) Investment revenue expenditure, and (*c*) Minor items of revenue expenditure. Trading expenditure includes goods bought for re-sale, either in the same or altered condition, and expenses incurred in bringing goods to a condition for sale and in selling them. Investment revenue expenditure includes expenditure incurred in securing the revenue from investments. Such expenditure includes interest upon capital borrowed by the society and employed by it in the business, or outside, to produce revenue; and it also includes repairs to house property and other property not used for trade purposes.

Some objects for which capital expenditure is incurred gradually wear out and decline in value. This falling off in value is known as depreciation, and a

charge known as a depreciation charge is made against the trade in each trading period for the falling off in value during that period. This charge is usually calculated as a percentage of the value of the asset which has depreciated.

A Statement of income and expenditure shows the surplus of income over expenditure. Such a statement is of the nature of a Revenue Account. In a Co-operative Society's balance sheet it is divided into three sections or separate accounts: Trading Account (which records trading income and expenditure), Investments Revenue Account (which records investment income and expenditure), and Final Revenue Account (which collects the balances of the other two revenue accounts and minor items of income and expenditure).

QUESTIONS AND EXERCISES.

1. What is Expenditure? What is Income? Give three examples of each.

2. Give two examples in each case of (*a*) a receipt that is not income; (*b*) a payment that is not expenditure; (*c*) income that is not a receipt, and (*d*) expenditure that is not a payment.

3. What are the two principal classes of income? How do they differ from one another? Give two examples in each class.

4. Explain carefully the difference between Trading Income and Investment Revenue Income, giving two items as examples of each.

5. What are the two principal classes of expenditure? How do they differ from one another? Give two examples of each class of expenditure.

6. What is depreciation? How is a depreciation charge calculated? Why is it right to charge the trading account with depreciation?

7. Prepare a statement of income and expenditure showing trading and other revenue. Insert figures of your own choice and balance the account.

8. Prepare a Trading Account, Investments Revenue Account, and Final Revenue Account as explained in this chapter. Insert figures of your own choice and balance the three accounts.

9. Why is it necessary for a Co-operative Society to keep a Receipts and Payments Account and the three sections of Revenue Account (i.e., Income and Expenditure Account)?

10. Say which of the following items are Capital Expenditure and which are Revenue Expenditure, giving reasons for your answers:—

(*a*) Purchase of a horse by a horse dealer.
(*b*) Purchase of a horse by a Co-operative Society.
(*c*) Payment of a branch manager's wages.
(*d*) Payment of rent for a shop.
(*e*) Purchase of a sack of flour.
(*f*) Purchase of a motor-car by a dealer in motor-cars.
(*g*) Purchase of a shop to serve as a branch.
(*h*) Payment of interest on share capital.
(*i*) Purchase of a plot of land upon which to build a garage.

11. Into which of the three Revenue Accounts mentioned in Chapter V. should the following items be recorded:—

(*a*) Sale of goods.
(*b*) Repairs to houses.
(*c*) Wages paid to a collector of house rents.
(*d*) Shop wages.
(*e*) Interest upon members' share capital.
(*f*) House rents received.
(*g*) Interest from C.W.S. on loan capital.
(*h*) Depreciation of shop building and fixtures?

12. How does Capital Expenditure affect the trading surplus of a Co-operative Society?

CHAPTER VI.
ASSETS AND LIABILITIES.

RECORDING OF ASSETS AND LIABILITIES ONE OF THE OBJECTS OF BOOK-KEEPING.

BOOK-KEEPING, as was explained in Chapter I., is concerned with the recording of those facts and figures relating to a business which show:—

(*a*) The position of the business in relation to the owners of the business and other persons;

(*b*) The debts and possessions of the business; and

(*c*) The results of the various operations in which the business has engaged.

These three classes of records were afterwards stated in more technical language as being:—

(1) Records of relations with debtors and creditors;

(2) Records of assets and liabilities;

(3) Records of the results of the business operations.

Two Books essential for the keeping of Necessary Records.

For the purpose of keeping these records in a manner which enables the book-keeper to abstract the necessary information in a summarised form, permitting this information to be readily grasped, two books it was said—and two books only—are essential. These are the Journal, in some form or other, and the Ledger. The balance sheet (using the term in the comprehensive sense in which it is employed in the Co-operative movement) is the final summarised statement of the records, and it is built up from these two essential books, or from the divisions of these books.

Cash Book and Day Books record Daily Transactions.

The Waste Book or Journal, as we saw in Chapter III., records the transactions in date order, but makes no attempt to classify them. In practice it is found more convenient to divide these books. Instead of entering the items indiscriminately in one book, three or more books are kept, one class of daily transactions being

entered in each. All transactions are either (*a*) goods bought or sold, or (*b*) cash received or paid; and it is usual to keep one book for goods bought, one for goods sold, and one for cash received and paid. Thus the purchases are entered, in date order, in a Purchases Book, which is often conveniently and correctly named a Purchases Day Book; and sales are entered in date order in a Sales Book (often called a Sales Day Book); whilst cash received and paid is entered in a Cash Book, this book itself often being further divided, in big societies, into subsidiary books, the totals of which are entered in a Summary Cash Book. The Waste Book and Journal are thus dispensed with in modern business houses and substituted by these three books, which are, however, merely parts of the older books.

The Ledger classifies the Transactions.

Whilst the various books which have taken the place of the Waste Book and Journal record the transactions in date order, the Ledger classifies them. The Day Books and Cash Book, which record the transactions in date order, are the books of primary entry, and from them the items are posted to the Ledger, where classification becomes possible by the allocation of a separate page for each account, whether it be (*a*) the account of a person from whom goods have been bought, (*b*) the account of a part owner of the business (e.g., the member of a Co-operative Society), or (*c*) the account of some department of the society, or some class of expenditure (e.g., Goods Purchased Account, which is a record of goods purchased, or Wages Account, which is a record of all wages paid).

Personal Ledger Accounts.

It is thus possible to ascertain at a glance the transactions with a debtor or creditor by referring to the page allocated to him in the Ledger. This applies not merely to those persons from whom the society has bought goods, or to whom it has sold goods, but also to those who are the owners of the business (e.g., the members of a Co-operative Society), for their separate accounts will show what they have paid to, or received from, the business. Thus the Ledger provides the record of the relations with debtors and creditors, which it is one of the objects of Book-keeping to provide. Such Ledger Accounts as have been described in this paragraph are known as "Personal" Accounts, because they refer to persons.

In all businesses but the very small ones, it is usual to divide the Ledger and have several Ledgers, each of which is assigned to a special class of account. Thus in most businesses there is a Purchases Ledger, which contains nothing but the accounts of the firms from whom goods have been bought; a Sales Ledger for the accounts of persons to whom goods have been sold; and other Ledgers for Impersonal Accounts; and in a Co-operative Society there is a Share Ledger (which in large societies is further divided into several books because of the large number of share accounts to be kept) in which there is nothing but the share accounts of the shareholders, i.e., the members. In the division of the Ledger into the several parts no uniform plan is followed, for much depends upon the size and nature of the business. In any case, the subject is one for consideration in a later chapter rather than in this one.

Impersonal Ledger Accounts: Nominal Accounts and Real Accounts.

It is, however, necessary to explain here that other accounts besides Personal Accounts have to be kept in the Ledger or its divisions. Such accounts are known as "Impersonal" Accounts, and are of two classes: Nominal Accounts and Real Accounts. Nominal Accounts are those which refer to classes of expenses such as wages, rent, interest; they do not represent anything of a property nature that can be sold. Real Accounts are accounts recording property and things that can be sold, such as land, buildings, horses, machinery, shares, and goods.

Balancing the Various Classes of Ledger Accounts.

As was explained in Chapter II., there are two sides to every Ledger Account—a debit side and a credit side. At the end of a trading period the two sides are totalled, and the difference, if any, is known as the "balance" of the account. The amount of this balance is inserted on the lesser side, and when it is "added in" with the items on the lesser side, the totals of the two sides of the Ledger Account agree. But the entry is not yet complete. The principle of Double Entry Book-keeping requires the making of a debit entry for every credit entry, and of a credit entry for every debit entry. There must, therefore, be a corresponding entry for each of those made in the accounts that have been balanced by the insertion of the amount of the balance. In the case of the Goods Account, or its two parts, Goods Purchased Account (or

Purchases Account) and Goods Sold Account (or Sales Account), and the Nominal Accounts, the corresponding entries are made in the Trading Account, the Investments Revenue Account, or the Final Revenue Account, i.e., in one of the Revenue Accounts. In the case of the Personal Accounts and Real Accounts, the amount of the balance is carried down to the opposite side of the same account, and it serves as the first item for the next trading period. The following examples will illustrate the method of treatment of the balance in various kinds of account:—

CASH ACCOUNT—CHAPTER VI.

Dr. (Real Account—Balance carried down). *Cr.*

		£	s.	d.			£	s.	d.
Jan. 1	To Bal. brought down.....	20	0	0	Jan. 5	By F. Jones ...	10	0	0
,, 10	,, F. Lord	30	0	0	,, 12	,, R. Hunt ...	30	0	0
,, 12	,, H. Ogden ..	40	0	0	,, 28	,, W. Gee	40	0	0
,, 31	,, N. Kay	50	0	0	,, 31	,, Bal. carried down.....	60	0	0
		£140	0	0			£140	0	0
Jan. 31	To Bal. brought down.....	£60	0	0					

MACHINERY ACCOUNT.

Dr. (Real Account—Balance carried down). *Cr.*

		£	s.	d.			£	s.	d.
Jan. 1	To Bal. brought down.....	100	0	0	Mar. 31	By Depreciat'n	5	0	0
Mar. 1	,, Sundry Persons	200	0	0	,, 31	,, Bal. carried down.....	295	0	0
		£300	0	0			£300	0	0
Mar. 31	To Bal. brought down.....	£295	0	0					

A. BEE & CO.

Dr. (Personal Account—Balance carried down). *Cr.*

		£	s.	d.			£	s.	d.
Jan. 1	To Goods	30	0	0	Feb. 6	By Cash	30	0	0
Mar. 21	,, ,, ...	20	0	0	Mar. 31	,, Bal. carried down.....	20	0	0
		£50	0	0			£50	0	0
Mar. 13	To Bal. brought down.....	£20	0	0					

CO-OPERATIVE WHOLESALE SOCIETY LTD.

Dr. (Personal Account—Balance carried down). *Cr.*

		£	s.	d.			£	s.	d.
Jan. 3	To Cash.....	80	0	0	Jan. 1	By Bal. brought down.....	80	0	0
Mar. 20	,, ,, ...	60	0	0	Mar. 15	,, Goods	60	0	0
,, 31	,, Bal. carried down	80	0	0	,, 28	,, ,, ...	80	0	0
		£220	0	0			£220	0	0
					Mar. 31	By Bal. brought down.....	£80	0	0

GOODS PURCHASED ACCOUNT.

Dr. (Real Account—Closed by Transfer*). *Cr.*

		£	s.	d.			£	s.	d.
Jan. 31	To Sundry Persons	200	0	0	Feb. 28	By Sundry Persons (Returns)	20	0	0
Feb. 28	,, Sundry Persons	180	0	0	Mar. 31	,, Bal. carried to Trading A/c...	580	0	0
Mar. 31	,, Sundry Persons	220	0	0					
		£600	0	0			£600	0	0

WAGES ACCOUNT.

Dr. (Nominal Account—Closed by Transfer). *Cr.*

		£	s.	d.			£	s.	d.
Jan. 31	To Cash.....	30	0	0	Mar. 31	By Bal. carried to Trading A/c...	85	0	0
Feb. 28	,, ,, ...	25	0	0					
Mar. 31	,, ,, ...	30	0	0					
		£85	0	0			£85	0	0

Ledger Balances representing Assets and Liabilities.

It will be seen that in the case of the Real Accounts and Personal Accounts there is frequently a balance, and this is first described as "Balance carried down," and then, when inserted on the opposite side, as "Balance brought down." Such balances represent either assets or liabilities. If the value of goods bought from a firm has exceeded the payments made to that firm, the credit entries in the Ledger Account of that firm will exceed the debit entries. The surplus is the balance of the account, which is described in such a case as a credit balance. It shows the amount of debt owing by the business to the firm whose name appears at the head of the page, and that firm is rightly described as a creditor for the amount. Other Ledger Accounts (see e.g., the

* If the value of the stock on hand at the end of the period is included in this account, the amount of the stock is carried down.

Machinery Account and the account of A. Bee and Co. on page 50) show a debit balance. A debit balance is either the amount of a debt owing to the business, or it is property belonging to the business; and debts owing to the business and property belonging to it are known as assets. A credit balance is the amount of a debt owing by the business, and such a debt is known as a liability.

Definition of Assets and Liabilities.

Assets may be defined as follows: "The assets of a business consist of debts owing to the business, or things of value, such as goods, property, and cash, belonging to the business."

Liabilities may be defined as follows: "The liabilities of a business consist of the debts it owes to its owners or other persons."

A Co-operative Society's Assets and Liabilities.

The amount of a society's assets and liabilities can be ascertained from the Ledger or Ledgers. The principal assets will be land, buildings, fixtures, machinery, shares in other societies or companies, loans to various individuals and bodies, stocks of goods on hand, debts owing by members or others for goods, and cash in hand and at the bank. The principal liabilities will be share capital owing to members, loan capital and savings-bank deposits owing to members and others, and debts owing to merchants for goods supplied.

The Balance Sheet Accounts.

As the various Ledger Accounts enable the amounts of a society's assets and liabilities to be ascertained, we have now gone so far as to explain in outline the records which show the following, as required by the definition of Book-keeping which we adopted: –

(*a*) The position of the business in relation to the owners of the business and other persons. Records of its relations with debtors and creditors. (The Ledgers give the information.)

(*b*) The debts and possessions of the business. The records of the assets and liabilities of the business. (The Cash Account and the Ledgers supply this information.)

(*c*) The results of the business operations. (These are shown by the Revenue Accounts (explained in Chapter V.), which are built up from the Goods Account and Nominal Accounts contained in the Ledger.)

We can now relate these matters to the Standard Balance Sheet, which consists of three essential parts:—

(1) The Cash Account, a summarised statement of receipts and payments (see Chapter IV.) built up from the items in the Cash Book.

(2) The three Revenue Accounts—Trading Account, Investments Revenue Account, and Final Revenue Account, explained in Chapter V. and built up from the Goods Account (purchases and sales) and the Nominal Accounts; and

(3) The Statement of Liabilities and Assets, which is built up from the Personal and Real Accounts in the Ledgers.

The Cash Account and Revenue Accounts have been explained in previous chapters, and the order of arrangement of the items in those accounts has there been outlined; but the form of statement of liabilities and assets still requires explanation. The order of arrangement followed in the Standard Balance Sheet is as follows:—

STATEMENT OF LIABILITIES AND ASSETS
AT 31st DECEMBER, 1925.

NOTE.—The numbered items are group headings covering a number of subsidiary items. Compare this form with a society's balance sheet drawn up on Standard Balance Sheet lines.

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
(1) Shares				(1) Stocks of Goods			
(2) Loans ..... (This item includes ordinary loans to the society and also savings-bank deposits and bank overdraft.)				(2) Property (Land, Buildings, Fixtures, Live Stock, etc.).....			
				(3) Investments (Shares, Loans, etc.)			
(3) Various Liabilities ..... (This item includes amounts owing for goods and for share interest, as well as sundry liabilities of minor importance.)				(4) Various Assets (A/cs. owing to the society and sundry assets; also Cash in hand and at the Bank).....			
(4) Reserve and Insurance Funds							
Total of preceding items..£							
(5) Balance disposable (i.e., surplus available for dividend, etc.)							
Total .....£				Total. .....£			

Reserves and Reserve Funds; and Balance Disposable.

All the foregoing items are almost self-explanatory except Nos. 4 and 5 on the liabilities side, which are rather confusing to the uninitiated. How often, for example, is the question asked, "How can a reserve be a liability?" or "How can the amount available for dividend be a liability?" or "Where is the reserve fund?" or "How can there be a reserve fund when there is a bank overdraft?" These questions the reader will be more easily able to answer after items 4 and 5 have been explained.

A reserve is a surplus of assets over liabilities. It means that if all the assets were turned into cash at their balance sheet value there would be enough cash available to pay off all the liabilities to members and others, still leaving in hand an amount of cash equal to the reserve fund. Of course, the assets, if sold, might not realise their balance sheet value, and the reserve would then have to be drawn upon. The reserve, being a surplus of assets over liabilities, can only be created by increasing the assets in relation to the liabilities. If a society received from members £1,000, and banked it, the assets would be £1,000 in the bank, and the liabilities would be £1,000 owing to the members. If goods were bought for £800, and expenses amounting to £200 were paid for selling them, the £1,000 cash would disappear; but if the goods were sold for £1,200 in cash there would be this amount of cash in hand or at the bank. The assets would be £1,200 cash at bank, whilst the liability for share capital would still be £1,000. There would be a surplus on the trading operations of £200, and in a Co-operative Society this would be the "balance disposable," which would be available for distribution as dividend or for other purposes. In any case, it belongs to the owners of the business, who will decide what to do with it. It is therefore a liability of the business to the owners, and for that reason the £200 "balance disposable" must be entered on the liabilities side. It is necessary to have some such entry on the liabilities side, otherwise the total of the liabilities side would not agree with the total of the assets side.

Suppose, now, that the members said: "We have done well this half year, but the society may not be as successful in the next half year, and it will be wise to distribute only £150 in dividend (the dividend when paid out in cash would reduce both assets and liabilities by the amount paid out) and put the other £50 on one side to

meet a possible loss in the next trading period." They would create a reserve fund of £50. It would still be the property of the members, who could decide at the next meeting to pay it out in dividend, add it to their capital, or give it away. It is still owing to them by the business, and therefore a liability of the business. Hence it is quite correct to enter the amount of the reserve fund on the liabilities side. The transfer of £50 from the "balance disposable" to the reserve fund has not altered either the amount or the nature of the assets.

The reserve must be distinguished from the reserve fund. The reserve is what the society can fall back upon in case of need, and, being a surplus of assets over liabilities, it is a part of those assets, but not any particular asset. In the case quoted in the previous paragraph, where all the goods were sold for cash, and the sole asset was £1,200 in cash before paying the £150 in dividend and £1,050 thereafter, the reserve was in cash. But suppose the society had spent the whole of this £1,050 in purchasing goods, for which cash was paid at the time of purchase, the cash asset of £1,050 would have disappeared, and another asset—a stock of goods valued at £1,050—would have taken its place. The society's reserve still remains; the society still has assets exceeding its liabilities (other than reserve fund) by £50. The reserve, therefore, is not necessarily in cash; it is not necessarily any particular asset; but is the general surplus of assets over liabilities; and the amount of this reserve is equivalent to the amount of the reserve fund on the liabilities side. The term, "reserve fund, £50," simply means that the amount of the reserve is £50. It is a statement of the amount by which the assets exceed the liabilities.

SUMMARY.

For the purpose of attaining the objects of Book-keeping, two books, and two only, are essential—one to record the transactions day by day as they occur, and one to classify these entries. The old-fashioned Waste Book and the Journal meet the former need of a daily record, but are substituted in modern business houses by several books, each of which is kept for the recording of a special class of these daily transactions. All transactions are either goods bought or sold, or cash received or paid, and the books usually employed for recording the daily transactions are (*a*) Purchases Day Book for recording purchases; (*b*) Sales Day Book for recording sales; and (*c*) Cash Book for recording cash received and paid. The Ledger classifies these daily transactions by the allocation of a special page, called a folio, for each person or account, and all debits and credits for each account are collected on the appropriate page. In practice, several Ledgers are kept for convenience, e.g., one for persons from whom goods have been bought, or by whom services have been rendered (this is known as the Purchases Ledger, or Bought Ledger);

another Ledger—a Sales Ledger—is kept for the accounts of persons to whom goods have been sold on credit; another Ledger is usually kept for the property accounts—land, buildings, etc.—and this is frequently known as the Property Ledger; and another is kept in a Co-operative Society for the share accounts of members, and this is known as a Share Ledger; whilst a Loans Ledger and Savings-Bank Ledger will be kept where there are loans or a savings bank.

Ledger Accounts may be divided into Personal Accounts—those relating to persons—and Impersonal Accounts, which are those relating to things and not to persons. Impersonal Accounts may be divided into two classes—Real Accounts, which refer to property, such as land, buildings, goods, and cash; and Nominal Accounts, which are the accounts that record some class of expense, such as wages, rent, and carriage. The Goods Account is frequently treated as a Nominal Account because of the difference between goods and capital items, and because goods items are entered in the Trading Account, not in the Capital Account.

When Personal or Real Accounts are balanced, the amount of the balance, if any, is inserted on the lesser side and then carried to the opposite side of the account to serve as the first entry for the next trading period. When Nominal Accounts are balanced, the balance, after being inserted on the lesser side, is carried to the opposite side in one of the Revenue Accounts. The Ledger Account is then said to be closed.

Where the total of the Dr. side of a Ledger Account is greater than the total of the Cr. side, the balance is said to be a debit, or Dr. balance; and when the total of the Cr. side is greater, the balance is said to be a credit, or Cr. balance.

Balances in the Personal and Real Accounts represent assets or liabilities. Debit balances are assets, and credit balances are liabilities. Assets consist of property belonging to a person or firm, or debts owing to a person or firm. Liabilities consist of debts owing by a person or firm. The principal assets of a Co-operative Society are land, buildings, fixtures, live stock, rolling stock, shares, loans to other people, goods, debts owing to the society, and cash in hand or at bank. The principal liabilities of a Co-operative Society are share capital owing to members, loan capital and savings-bank deposits owing to members and others, and debts owing to merchants for goods supplied or services rendered.

The Statement of Liabilities and Assets published in a society's balance sheet can be built up from the Ledger Accounts. On the liabilities side of the statement are two items—"reserve and insurance funds," and "balance disposable," which are liabilities of the business to the members. Reserves are a surplus of assets over liabilities, and the amount of the reserve fund is a statement of the amount of the reserve; whilst the balance disposable is the amount of the trading surplus available for dividend or other purposes.

QUESTIONS AND EXERCISES.

1. What books are essential for the attainment of the objects of Book-keeping? In what respects do they resemble and differ from one another?

2. What three books are generally employed to record the daily transactions of a business? State the nature of the transactions recorded in each of them.

3. Into what classes may Ledger Accounts be classified? Explain the difference between the various classes of Ledger Account, giving examples of each class.

4. How are Ledger Accounts balanced? Where are the balances of the Ledger Accounts carried? Give examples to illustrate your answer.

5. Define " Assets " and " Liabilities," and indicate the sources of information from which the assets and liabilities of a business may be ascertained.

6. On which side of the Ledger do the balances representing (*a*) Assets, and (*b*) Liabilities appear ?

7. Prepare a Statement of Liabilities and Assets, showing the group headings employed in the Standard Balance Sheet.

8. What assets and liabilities are usually to be found in the balance sheet of a Co-operative Society ?

9. What are the three essential accounts of the Standard Balance Sheet, and from what sources are the items for each account derived ? One of the essential accounts has three sections. What are the names of these sections ?

10. What is a " Reserve " ? Why do reserve funds appear on the liabilities side of a Statement of Liabilities and Assets ?

11. Can a society be truly said to have a reserve when it has a bank overdraft ? Give reasons for your answer.

12. What is the meaning of " Balance Disposable " ? On which side of the Statement of Liabilities and Assets does it appear ? Why does it appear on this side of the statement ?

REVISION QUESTIONS AND EXERCISES ON CHAPTERS I. TO VI.

1. John Lord has £20 and James Lee has £30. Lord lends Lee £10. Who is the debtor and who is the creditor in this transaction ?

2. What are the assets and liabilities of each party after the loan mentioned in Question 1 has been made ?

3. If Lee repays to Lord a loan of £10, who is the debtor and who is the creditor in the transaction ?

4. Explain the term " assets " and the term " liabilities."

5. Mention three assets and two liabilities likely to be found in the balance sheet of a Co-operative Society.

6. If a society buys £10 worth of flour and pays cash for it, and buys £5 worth of sugar on credit, what change has taken place in its assets and its liabilities ?

7. Explain the terms " debtor " and " creditor."

8. What meaning is attached to the term " balance sheet " in the Co-operative movement ?

9. State briefly how Co-operative Book-keeping resembles and differs from Book-keeping in non-co-operative businesses.

10. Who would be paid last if the business of a Co-operative Society were wound up, and why ?

11. What would be the difference of " rights " of a person who invested share capital in a Co-operative Society and one who invested loan capital, if the society were wound up ?

12. What is the principal information which a person engaged in business expects to get by keeping books on a proper system ?

13. What is the object of Book-keeping ?

14. Show the truth of the statement that every transaction involves two persons, and give two illustrations of this truth.

15. What is a " debit " entry and what is a " credit " entry ? Where would you expect to find the debit entries if a society bought goods value £100 from the C.W.S. ?

16. What is the golden rule of Double Entry Book-keeping ? What relation has this rule to the balancing of the books of a society ?

17. Compile a specimen Ledger Account and enter two debit and two credit entries.

18. What is the " balance " of a Ledger Account ? What is indicated when there is such a balance ?

19. When a society purchases goods, what Ledger Accounts are affected, and what entries are made ?

20. If you were asked to examine the books of a society to ascertain whether it owed money to the C.W.S. for goods supplied, where would you look, and what would you look for, to tell whether it did or not ?

21. In what respects does a Journal differ from a Ledger ?

22. It is said that the Journal is a book of primary entry. What does this mean ?

23. Journalise the following items :—

Jan. 1.—Bought goods from C.W.S., £80.
,, 2.—Bought goods from A. Merchant, £20.
,, 3.—Paid C.W.S., £10.
,, 5.—Shop takings for month up to date, £50.
,, 6.—Paid wages, £5.
,, 6.—Returned goods to A. Merchant, £5.

24. Having journalised the items given in Question 23, post them from the Journal to Ledger Accounts, afterwards balancing these Ledger Accounts.

25. Give two examples of a "double" transaction, and journalise them.

26. Why is the Journal only sparingly employed in business houses to-day, and for what entries is it used? What justification is there for requiring students to use it at the beginning of their studies?

27. What is "income" and what are "receipts"? Give two examples of each.

28. Using the answer to Question 27 as the material, explain the difference between "income" and "receipts."

29. What is "expenditure" and what are "payments"? Give two examples of each.

30. Using the answer to Question 29 as the material, explain the difference between "expenditure" and "payments."

31. Prepare as for the A. B. Society (*a*) a Receipts and Payments Account, and (*b*) an Income and Expenditure Account from the following data:—

Jan. 1.—Purchased goods from the C.W.S., value £50.
,, 1.—Shop takings for goods sold, £20.
,, 2.—Paid wages, £5.
,, 2.—Purchased goods from A. B. and Co., £20.
,, 2.—Shop takings for goods sold, £15.
,, 3.—Bought goods for cash from C. D., £5.
,, 3.—Paid C.W.S. cash, £20.
,, 3.—Paid rent to landlord, £5.

32. It is said that a Cash Account is a Receipts and Payments Account. Explain this statement.

33. It is said that a Trading Account shows income and expenditure arising from trade. Explain this statement.

34. Under what group headings are receipts and payments classified in a Co-operative Society's Cash Account?

35. Make out a Cash Account showing the group headings, and make one entry under each heading.

36. What are the principal items included as Capital Account receipts and payments in the Cash Account of Co-operative Societies?

37. What are the principal items included as Revenue Account receipts and payments in the Cash Account of Co-operative Societies?

38. Can (*a*) a person's payments exceed his receipts, and (*b*) a person's expenditure exceed his income? Give explanations of your answers.

39. On which side of the account—Dr. or Cr.—are the following classes of transactions entered: cash received; cash paid; income; expenditure?

40. Can a person be a bankrupt if his receipts exceed his payments? Give reasons for your answer. Would your answer be different if his receipts had exceeded his expenditure?

41. "Some forms of expenditure are spoken of as investments." Explain this statement and give two examples of investments.

42. What is Capital expenditure? What is Revenue expenditure? Explain the difference between the two classes of expenditure.

43. Under what group headings may income and expenditure be classified?

44. Give three examples of Capital expenditure and three examples of Revenue expenditure, and show how they differ.

45. How is the gradual falling off in value of a machine (due to wear and tear) provided for in the books of a business?

46. The Revenue Account is divided into three parts in the balance sheet of a Co-operative Society. What are these three parts, and what class of income and expenditure is entered in each of them ?

47. What name is given by Co-operators and by private traders to the excess (if any) of income over expenditure ? On which side of the Revenue Account is this excess entered, and why is it entered there ?

48. What is a Purchases Book, and what entries are made therein.

49. Prepare a suitable ruling for a page of a Purchases Book, and enter three items in it.

50. To what accounts are the items posted from the Purchases Book ?

51. What is the difference between a Personal Ledger Account and an Impersonal Ledger Account ? Into what classes are Impersonal Ledger Accounts divided ?

52. What is a Dr. or debit balance of a Ledger Account ? How does it arise ?

53. Where are the " balances " of the Ledger Accounts carried ?

54. Describe the process of balancing a Ledger Account.

55. Which Ledger Account balances represent assets and which represent liabilities ?

56. From what sources is a society's Statement of Liabilities and Assets built up ?

57. What are Reserves and where are they to be found in the balance sheet ?

58. What kinds of Reserve Funds do you know of ? Where are they to be found in a society's balance sheet ?

59. What is the meaning of the term " balance disposable " in a Co-operative Society's balance sheet ?

60. If a society's liabilities exceeded its assets, what would you be entitled to conclude ?

61. Can a society be solvent when it has a big overdraft at the bank ? Give reasons for your answer.

62. Prepare a blank form of Statement of Assets and Liabilities showing the group headings on each side of the statement.

63. During a certain season an employees' football club received £22 in members' subscriptions; a donation of £20 from the society; and other donations £3. It drew £18 in gate-money; sold an old hut for £5, and some old shirts for £1; paid £15 for rent; £2 for repairs to goal posts; £13 for a new hut; £10 in players' fares; £10 for new shirts and knickers; £5 for services of a groundsman; £3 for new balls; £5 for secretary's expenses; £7 for printing; and £3 for sundry expenses. There was £10 in hand at the beginning of the season. Prepare its Statement of Receipts and Payments for the season.

64. A guild branch began with a balance in hand of £3, and during the guild year, 1924-5, received £10 in members' subscriptions; £10 as grant from the society with which it was connected; £12 as net proceeds of a sale of work; and £2 for sale of literature. It paid the following items: Rent of room, £5; printing of syllabus, £3; secretary's honorarium, £5; postage, £1; delegation expenses, £3; subscription to National Guild, £3; subscription to Sectional Educational Association, 10s.; sundry expenses, 10s. Prepare its Statement of Receipts and Payments.

CHAPTER VII.

THE RECORDING OF PURCHASES AND OTHER EXPENDITURE.

THE PURCHASES BOOK AND THE INVOICE ANALYSIS BOOK.

IN previous chapters a survey has been made of the methods by which the objects of Book-keeping are attained. We have, as it were, viewed the framework of the system of Double Entry Book-keeping. There remains the task of examining in detail the various parts which make up the complete system. We have already noticed that all business transactions are either (*a*) goods bought or sold, or (*b*) cash received or paid. The books of primary entry are employed to record purchases and sales, and also to record cash received and paid. We shall now explain these books of primary entry. Since business operations are so much concerned with the buying and selling of goods, and since a society buys goods before it sells them, it will be convenient to begin with a description of the Purchases Book, often called a Purchases Day Book.

The Purchases Book.

As was explained in Chapter III., the Purchases Book may be looked upon as a part or section of a single book (Waste Book or Journal) originally kept in the days of small things, when all transactions, whatever their nature, were entered daily in one book in the order of their occurrence. But the purchases of one firm are the sales of another firm, and the purchasing firm does not enter the purchase in its books until the goods are invoiced by the seller.

Invoices.

The seller of the goods when he delivers them to the purchaser direct, or to the railway company for forwarding to the purchaser, prepares and sends to the purchaser a document known as an invoice, whereon are stated the quantity and description of goods forwarded, the price of each article, and the total cost of the goods,

the nature of the packing (e.g., "In one case fully addressed"), and the route by which the goods have been forwarded. The invoice bears in addition, of course, the names of seller and buyer and the date.

An invoice may therefore be defined as a form containing *particulars of the quantity, quality, price, cost, and other details of goods sold and delivered.** The following copy of an invoice will illustrate the definition:—

Leicester, December 18th, 1925.

The Greenvalley Co-operative Society Ltd.

BOUGHT OF THE

FEDERATION CO-OPERATIVE PRODUCTIVE SOCIETY LIMITED,

PIONEER WORKS, LEICESTER.

Route.	Carriage.	Package.	Marks.
L. M. & S. Railway.	*Paid.*	*One Case.*	*Fully Addressed.*

Quantity.	Description.	Size.	Price.	Charge.	Total.
				£ s. d.	£ s. d.
3 doz. prs.	*"Mayflower" Ladies' Shoes*	*5*	*15/–*	*27 0 0*	.....
1 ,,	*"Mayflower" Ladies' Shoes*	*6*	*15/–*	*9 0 0*	*36 0 0*
				36 0 0	*36 0 0*

Checking of Invoices.

An invoice when received is checked. In other words, it is examined to see if it is correct. Before the invoice is passed for payment some person must see that the goods have arrived, and for this purpose will refer to a Goods Received Book, in which are entered day by day all goods received. The same, or some other,

* This definition should be compared with the definition of a contract note: "A contract note is a form containing the conditions of sale and particulars of the quantity, quality, price, and other particulars of goods sold by one of the contracting parties to the other." In the case of an invoice the goods are *delivered*, but the delivery of goods contracted for may not be completed for some months after the contract has been made.

person or persons must see that the goods are correct in quantity and quality, and agree with the order; some person must pass the price as correct; and some person must check the extensions, i.e., see that the calculations and the totals are correct. Each of these persons should initial the invoice, so that if any error is afterwards discovered it may be possible to fix the responsibility for passing the invoice upon the right person. To facilitate this recording of the initials of those who pass the invoice it is usual when an invoice is received to stamp it with a rubber stamp, as follows:—

Inv. No. .....
Pur. Book .....
Led. Folio .....
Receipt Ch......
Quantity Ch......
Quality Ch......
Price Ch. .....
Ext. & Tot. Ch......

The abbreviations mean Invoice number; Purchases Book (page number); Ledger Folio; Receipt (of the goods) checked; Quantity checked; Quality checked; Price checked; Extensions and Totals checked.

Entering of Invoices in the Purchases Book.

The invoices when received are numbered in progressive order from No. 1 onwards, the invoices of each trading period or year commencing with No. 1. The numbering of the invoices in this way facilitates reference afterwards, for they are filed in numerical order after having been entered. In some societies, the invoices are entered, either fully or partly, in the Purchases Book before being sent out to the departments for checking; and in other cases they are not entered until checked. The former method, if the entry includes merely the number of the invoice, the name of the seller, and the total, is probably the best; for there is then less danger of an invoice being overlooked if it is lost after being sent out to a department to be checked. Any necessary details can be added in the Purchases Book when the invoice is returned after having been checked.

In the older-fashioned method of keeping the Purchases Book the various items included in the invoice are entered line by line. Each month's entries are usually commenced on a fresh page,

so that a total for each month's purchases can be obtained. If we imagine a society with very few purchases the following might be taken to represent a page in the Purchases Book covering the purchases for a month:—

JANUARY, 1926. Page 1.

Invoice No.	Ledger Folio.	Date.		Price.	£	s.	d.	£	s.	d.
			—1—							
1	...	Jan. 1	C.W.S. Ltd.—							
			20 sacks Flour	44/–	44	0	0	.....		
			6 cwt. Sugar	28/–	8	8	0	52	8	0
			—8—							
2	...	,, 8	C.W.S. Ltd.—							
			2 cwt. Bacon.....	138/–	13	16	0	13	16	0
			—15—							
3	...	,, 15	Black and Brown—							
			1 cwt. Lard	90/–	4	10	0	4	10	0
			—15—							
4	...	,, 15	C.W.S. Ltd.—							
			5 cwt. Butter.....	228/–	57	0	0	.....		
			1 cwt. Cheese.....	116/–	5	16	0	62	16	0
			—22—							
5	...	,, 22	A. White and Co.—							
			1 pair Patent Scales..	...	3	0	0	3	0	0
				£	136	10	0	136	10	0

When the invoices are being entered in the Purchases Book the number of each invoice is entered in the appropriate column, and the number of the page of the Purchases Book is entered on the invoice in the place indicated by the rubber stamp. Where the invoices are carefully filed it is not always considered necessary now to enter each line of the invoice, but to enter only the total of the invoice, reference being made to the invoice if information about details is required.

Relation of the Purchases Book to the Ledgers.

The Purchases Book furnishes the data for two classes of Ledger entries—the entries in the Personal Accounts and the entries in the Impersonal Accounts. The personal entries are the totals of the various invoices, and are posted from the Purchases Book to the credit side of the Personal Accounts in the Purchases Ledger (or Bought Ledger), for the sellers of the goods are creditors, as explained in previous chapters. The impersonal entries are the total purchases for the month, and are posted from the Purchases Book at the end of the month to the debit side of the Goods Account, or Purchases Account, or other appropriate account. These accounts are debited because the business is a debtor for the amounts, and the section or department which is the receiver on behalf of the business, e.g., goods department, is debited to show the business as a debtor. If the purchases include nothing but goods the monthly total will go direct to the Goods Account; but if they include other items—say, stationery, machinery, or fixtures—a summary analysis of the total purchases must first be made at the end of each month, and entered after the monthly total in the Purchases Book, e.g.:—

	£	s.	d.
Goods	1200	6	5
Stationery	5	0	0
Machinery	140	0	0
Fixtures	7	15	0
	£1353	1	5

The total, £1,353. 1s. 5d., will agree with the total of the daily purchases in the Purchases Book, and each of the four separate totals will be posted to the debit of its appropriate account in the Nominal or other Ledger. The total of the debits in the Impersonal Accounts will then agree with the total of the credits in the Personal Accounts, and the requirement that each debit shall have its corresponding credit, and vice versa, has been satisfied. By posting totals of monthly purchases in this way the necessity of journalising each individual item in order to get the appropriate debit for each credit, and vice versa, is avoided, and much time is thereby saved. It is desirable that all purchases, whether for cash or on credit, should be entered in the Purchases Book.

Invoice Analysis Book.

It has been necessary to explain the form of Purchases Book outlined in this chapter because it is still employed in some

businesses, and it has some advantages where the business is a small one; but a more modern system, and one indispensable in some form or other in a big business, brings into use an Invoice Analysis Book, or Purchases and Expenses Analysis Book. In this book the total only of each invoice is entered—not the details of each item on the invoice—and this total is analysed at the time of entry under such headings as may be required. This method makes possible the analysis of purchases and expenses departmentally, and also according to the nature or the function of the expenditure. By keeping separate analysis books for goods, for expenses, and for other expenditure, additional columns for analysis can be provided and classification can be carried still further.

At this stage of his contact with the subject it will be well for the student to confine his attention to the broader classification of expenditure, leaving to a later stage of his study the finer divisions and classifications. We shall therefore suppose, for the purpose of explaining the principle of classification, that we are concerned with the expenditure of a small society which has only one department—a grocery department. When the student is familiar with the entries and system necessary for such a society it will not be very difficult for him at a later stage to extend the application of the underlying principles in a more detailed classification of expenditure arising out of the operations of a society with several departments, including productive and service departments.

It will be convenient, at first, to think of expenditure as consisting of three general classes: (1) goods, (2) expenses, and (3) capital expenditure. The first-named consists of expenditure upon goods bought for re-sale in the same or in an altered form; the second consists of all expenditure other than capital expenditure incurred for the purpose of effecting a re-sale; and the third consists (as explained in Chapter V.) of expenditure upon land, buildings, machinery, fixtures, motors, etc.—things which are not completely used up in any one trading period for the purpose of effecting the re-sale of the goods. These three general classes can, at a later stage, be divided into smaller classes or sections.

Having decided upon these general classes, our Invoice Analysis Book is ruled accordingly. Columns must be left for date, invoice number, name of sender of invoice, Ledger reference number, for the total of the invoice, and for each class of

expenditure. Such an Invoice Analysis Book would appear as follows:—

Invoice No.	Ledger Folio.	Date.	Name.	Total.			Goods.			Expenses.			Capital Expenditure.		
				£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.

Let it be supposed that a society during the month of January, 1926, receives twenty invoices. These invoices will be numbered in progressive order on receipt and stamped, as mentioned earlier in this chapter, so that those responsible for checking the invoices may record their initials. In order to avoid repeating in the Personal Account any mistake that might be made when entering the amount of the invoice in the Invoice Analysis Book, it is desirable not to post the Personal Ledger from the Analysis Book but to enter the amount of each invoice direct from the invoice into the Personal Account of the seller in the Purchases Ledger before entering it finally in the Analysis Book. The number of the folio in the Ledger can then be inscribed on the invoice in the place provided by the stamping, and it can be repeated in the Invoice Analysis Book. This method of dealing with the entries facilitates reference to the Ledger from the Analysis Book without turning up the file of old invoices to find the Ledger folio for any particular item.

The following may be supposed to be the summarised particulars of the twenty invoices, which are here listed in numerical order:—

				£
(1)	Jan. 4.	—Co-operative Wholesale Society Ltd..	Bacon.....	30
(2)	,, 5.	—,, ,, ,,	Butter.....	40
(3)	,, 6.	—,, ,, ,,	Cheese.....	10
(4)	,, 7.	—,, ,, ,,	Various Goods	40
(5)	,, 8.	—A. Bee and Co.	Sundry Goods.....	10
(6)	,, 9.	—Co-operative Wholesale Society Ltd..	Stationery	5

(7)	Jan. 11.	—L. M. & S. Railway Co.	Carriage	2
(8)	,, 13.	—Ridehard and Co.	Motor Van	200
(9)	,, 16.	—Co-operative Wholesale Society Ltd.	Flour	80
(10)	,, 16.	—B. Quick and Co.	Bacon	10
(11)	,, 18.	—W. Farmer	Potatoes	10
(12)	,, 19.	—Green and Brown	Painting Premises	15
(13)	,, 19.	—Co-operative Wholesale Society Ltd.	Bacon and Flour	75
(14)	,, 20.	—A. Bee and Co.	Sundry Goods	10
(15)	,, 21.	—L. M. & S. Railway Co.	Carriage	3
(16)	,, 23.	—Corporation	Rates	5
(17)	,, 25.	—A. Wood	New Counter	10
(18)	,, 26.	—Co-operative Wholesale Society Ltd.	Cheese	10
(19)	,, 28.	—Post Office	Telephone Charges	10
(20)	,, 30.	—Corporation	Gas Stove	3
(21)	,, 30.	—Sundry Persons	Wages for Month	25

The last item calls for explanation. The wages are paid weekly. The details are entered in a Wages Book, and the total is entered in the Cash Book when paid. It is a convenient and commendable way of dealing with the wages charge to make out a "dummy" invoice, either weekly or monthly, for the amount of wages paid during the month and enter it in the same way as other invoices in the Invoice Analysis Book.*

The foregoing items, when entered in the Invoice Analysis Book, will appear as shown on page 69. It may be desirable to add here that the Invoice Analysis Book is usually totalled monthly and the totals of the various columns are posted monthly, the entries for each month being commenced on a fresh page. When numbering the invoices, it is desirable to commence with No. 1 at the beginning of each half-yearly trading period, or each year if the trading periods are quarterly ones.

* When this is done, a Personal Account, headed "Staff Wages," is required, and this is credited with the amount of the invoice for wages, and debited with the payments as per Cash Book. An alternative method is to enter the wages from the Cash Book weekly as paid into the Invoice Analysis Book, but this method is not as satisfactory as the method recommended above. In larger societies other methods may be preferable, and these will be explained later.

JANUARY, 1926.

Invoice No.	Ledger Folio.	Date.	Name.	Total.	Goods.	Expenses.	Capital Expenditure.
				£ s. d.	£ s. d.	£ s. d.	£ s. d.
1	P.L. 1	Jan. 4	Co-operative Wholesale Society Ltd.	30 0 0	30 0 0	.....	.....
2	,, 1	,, 5	,, ,, ,, ...	40 0 0	40 0 0	.....	.....
3	,, 1	,, 6	,, ,, ,, ...	10 0 0	10 0 0	.....	.....
4	,, 1	,, 7	,, ,, ,, ...	40 0 0	40 0 0	.....	.....
5	,, 5	,, 8	A. Bee and Co.	10 0 0	10 0 0	.....	.....
6	,, 1	,, 9	Co-operative Wholesale Society Ltd.....	5 0 0	.....	5 0 0	.....
7	,, 6	,, 11	*L. M. & S. Railway Co.....	2 0 0	2 0 0	.....	.....
8	,, 7	,, 13	Ridehard and Co.	200 0 0	.....	.....	200 0 0
9	,, 1	,, 16	Co-operative Wholesale Society Ltd.....	80 0 0	80 0 0	.....	.....
10	,, 8	,, 16	B. Quick and Co.	10 0 0	10 0 0	.....	.....
11	,, 9	,, 18	W. Farmer	10 0 0	10 0 0	.....	.....
12	,, 10	,, 19	Green and Brown	15 0 0	.....	15 0 0	.....
13	,, 1	,, 19	Co-operative Wholesale Society Ltd.....	75 0 0	75 0 0	.....	.....
14	,, 5	,, 20	A. Bee and Co.	10 0 0	10 0 0	.....	.....
15	,, 6	,, 21	*L. M. & S. Railway Co.....	3 0 0	3 0 0	.....	.....
16	,, 11	,, 23	Corporation	5 0 0	.....	5 0 0	.....
17	,, 12	,, 25	A. Wood	10 0 0	.....	.....	10 0 0
18	,, 1	,, 26	Co-operative Wholesale Society Ltd.....	10 0 0	10 0 0	.....	.....
19	,, 13	,, 28	Post Office	10 0 0	.....	10 0 0	.....
20	,, 11	,, 30	Corporation	3 0 0	.....	.....	3 0 0
21	N.L. 11	,, 30	Wages	25 0 0	.....	25 0 0	.....
				603 0 0	330 0 0	60 0 0	213 0 0

* Carriage *inwards* is treated as an addition to the cost of the goods carried.

The total of each invoice having been entered on the credit side in the Purchases Ledger in each creditor's account, the total of each class of expenditure must now be entered on the debit side of its appropriate account in the Nominal or other Ledger. Being concerned with a small society we need only one Ledger for both Nominal and Real Accounts, but it will be wise to allocate, say, the first two-thirds of the Ledger for Goods Purchased, Goods Sold, and Nominal Accounts, and the last one-third of the Ledger for the account or accounts of capital expenditure, so that kindred accounts will be together. At a later stage, when the accounts of larger societies are being dealt with, separate Ledgers will be required. The index to the Ledger will give the number of the page allocated to each account.

This chapter, however, is primarily concerned with the recording of expenditure in the Purchases Book or Invoice Analysis Book; but it has seemed desirable to indicate their relationship to the Ledger, so that the student may see quite clearly how the rule is followed of giving to every debit its corresponding credit, and to every credit its corresponding debit.

SUMMARY.

A Purchases Book, often named "Purchases Day Book," is employed to record purchases daily. The separate items of the invoice and the total of the invoice may be entered, or the total only of the invoice. The total is sufficient when the invoices are suitably filed for reference on points of detail.

The entries in the Purchases Book are made from invoices forwarded by the seller of the goods. An Invoice is a form containing particulars of the quantity, quality, price, cost, and other details of goods sold and delivered. When an invoice is received by a purchaser of goods it is checked in order to verify the correctness of the goods and the charge for them. To facilitate the recording of the initials of the persons responsible for checking the various parts of the invoice, and to aid other references, it is usual to stamp the invoice with a rubber stamp, so that the necessary particulars can be recorded in a systematic manner. The invoices are numbered in progressive order on receipt, and are entered in numerical order in the Purchases Book, and afterwards filed in the same order to facilitate reference. The Purchases Book is usually totalled monthly, and the total (or the total of each class of purchase if more than one class is recorded) is debited to the Goods Purchased or other appropriate Account Impersonal Account. The Personal Accounts of the creditors in the Purchases Ledger are entered either from the invoices direct or from the Purchases Book.

In modern methods of Book-keeping a Purchases and Expenses Analysis Book or Invoice Analysis Book is usually employed in place of the older style of Purchases Book. The invoices are entered in number order—which is, roughly, date order—of the invoices. The Invoice Analysis Book, besides having columns for the number and date of the invoice, and for the Ledger reference number and name of the firm issuing the invoice, is ruled with cash columns for the total amount of the invoice, and a further number of cash

columns each of which is for recording a particular class of expenditure, so that the number of cash columns depends upon the number of class headings under which it is desired to classify the expenditure.

For the time being, the student is asked to confine his attention to three principal divisions of expenditure, viz., goods, expenses, and capital expenditure, and to consider the accounts of a small society with only one department—a grocery department. The classification of expenditure in sub-classes, and the allocation of expenditure for various departments of a society, follow the same principles, and will be treated in later chapters when the student is more familiar with the principles and method of classification. The invoices having been entered in the Personal Accounts as credits, the debit entries of corresponding value can be made by posting the total of each of the three columns of classified expenditure in the Nominal and Real Accounts.

QUESTIONS AND EXERCISES.

1. What is a Purchases Book or Purchases Day Book, and from what source is it entered ?

2. What is an Invoice ? Prepare a suitable heading for an invoice.

3. Make out an Invoice for the following goods, using imaginary names and completing the invoice in proper form :—

3 dozen cases of patent food, @ 36s. per case.
2 cwt. of butter, @ 224s. per cwt.
3 tons of washing soda, @ £5 per ton.

4. What is meant by "checking an invoice" ?

5. How is the double entry of every transaction achieved when a Purchases Book is employed ?

6. What is an Invoice Analysis Book ? From what source is it entered ?

7. What primary classification of expenditure is recommended at this stage of study ? Give a specimen ruling of an Invoice Analysis Book with the columns suitably headed.

8. Under what headings should each of the following items be classified in the Invoice Analysis Book ? (*Where more than one answer is possible indicate what information is required before you can give a correct answer.*):—

(1) 3 sides of bacon.
(2) 1 chest of tea.
(3) Wages of shopmen.
(4) Window cleaning.
(5) Wrapping paper.
(6) Carrier's account.
(7) New fixtures.
(8) Repairs to counter.
(9) 1 bag of sugar.
(10) Stationery.
(11) A new window pane to replace a broken one.
(12) A sweeping brush.

9. Give an example of the ruling of a page in the Invoices Analysis Book, and enter the following items of expenditure for which invoices have been received :—

Co-operative Wholesale Society Ltd.—Rice, £5.
L.M. and S. Railway Co.—Carriage inwards, £2.
Co-operative Wholesale Society Ltd.—Stationery, £2.
Corporation—Rates, £5.
A. Merchant and Co.—Firelighters (for sale), £2.
Wood and Glass Ltd.—Showcase, £3.

10. How is the Double Entry principle complied with when an Invoice Analysis Book is employed ?

11. On what principle would you decide whether an item of expenditure was capital expenditure or not ?

12. What are likely to be the principal items of capital expenditure in a Co-operative Society with only one department—a grocery department ?

CHAPTER VIII.

THE CLASSIFICATION OF EXPENDITURE ACCORDING TO NATURE AND ACCORDING TO FUNCTION.

IT now becomes necessary to carry a stage further the consideration of the recording of purchases and expenses which was commenced in Chapter VII., and, as the basis is to be classification according to function, this classification and the classification according to the nature of the expenditure must be explained and their difference clearly indicated.

CLASSIFICATION OF EXPENDITURE ACCORDING TO ITS NATURE.

Expenditure takes many forms. It may be expenditure upon goods, upon paper for wrapping goods, upon carriage, upon wages, upon rents, upon buildings, upon fixtures, or upon one of many other classes of goods or services. If the expenditure is classified under these headings it is classified according to its nature. This is the usual method of classification in the ordinary type of business concern, and it is the method that has hitherto been adopted in the Co-operative movement. For the purposes of the Standard Balance Sheet, however, expenditure is classified according to function, which we shall now consider.

CLASSIFICATION OF EXPENDITURE ACCORDING TO FUNCTION.

Capital Expenditure and Revenue Expenditure.

The classification of expenditure as capital expenditure and as revenue expenditure is a classification based upon difference of function. Reference has already been made in some previous chapters to capital expenditure and its differentiation from revenue expenditure. The function of the objects of capital expenditure differs from the function of the objects of revenue expenditure. The former is for the provision of the instruments of production and distribution, such as buildings, machinery, and fixtures—things that are left after the processes of production and distribution are completed; whilst revenue expenditure is incurred for the provision of goods and services entirely consumed in the processes of produc-

tion and distribution, e.g., raw materials, goods for re-sale, wages for employees' services, rents for the use of land, shops, etc. In all businesses the two classes of expenditure are separately recorded. If, for example, a society buys a motor-cycle to be used by a canvasser or other member of the staff when engaged on the society's business, the expenditure would be considered capital expenditure; but if the same society bought a similar cycle for re-sale in the hardware or other department the expenditure would be classified as revenue expenditure under the heading of goods. We may therefore say that classification of expenditure according to function is already recognised to some extent in both Co-operative and outside businesses; but the application of the principle is carried further in the system of accounts we are now considering, and is extended to the classification of the items of revenue expenditure.

In classifying expenditure according to function we look at the purpose to be served rather than to the nature of the expenditure. Various types of expenditure incurred for trading purposes serve the same purpose or function. A simple illustration is the expenditure attached to the provision of a shop. If society "A" hires a shop it will pay rent to the landlord. The nature of the expenditure is rent, but the function of the expenditure is to provide premises wherein the trade of the society can be carried on. If society "B" wants premises for trading purposes and decides to buy or build a shop it will not pay rent to a landlord; it will be its own landlord so far as the premises are concerned, though it may have to pay a ground rent to a ground landlord for the site upon which the shop stands. Instead of the inclusive rent* which society "A" pays to the owner of the premises, society "B" has expenses of another nature to meet for the same function. Society "B," being its own landlord, has to pay to its members interest upon that part of the capital which has been expended for the purchase of the land† and for the shop buildings. Some allowance will have to be made every year for the falling off in value due to wear and tear, i.e., depreciation; the buildings will have to be insured against fire; repairs will have to be executed, and the property will have to be painted from time to time; certain landlord's taxes will have to be paid; and other minor expenses may be incurred. These various

* This rent the owner expects to cover the interest upon the capital he has invested in the property, depreciation for the gradual wearing out of the property, the premiums he has to pay for insurance against fire, etc., the cost of repairs, and other expenses incidental to property ownership.

† If the land has not been bought there will be an annual ground rent to pay.

items of expense differ in nature from the inclusive rent paid by society " A " for a rented shop, but the function of the expenditure is the same. It is to provide accommodation for trading purposes. Let us set down, side by side, the items constituting the charge for this service in the two cases.

Society " A "	Society " B "
Pays for the use of the shop—	Pays for the use of the shop—
	1. Interest (upon the capital expended upon the shop and, perhaps, the site upon which the shop stands).
1. Rent to the landlord.	2. Depreciation.
2. Ground rent (perhaps).	3. Ground rent (perhaps).
3. Rates (to local authority).	4. Rates (to local authority).
4. Taxes (perhaps).	5. Taxes (to Government).
5. Repairs (perhaps).	6. Repairs.
6. Painting, etc. (perhaps).	7. Painting.
7. Cleaning, heating, and lighting.	8. Cleaning, heating, and lighting.

It will be seen that although the *function* of the expenditure is the same in both cases, the *nature* of the expenditure is not the same.

Why Functional Classification is desirable.

In the Co-operative movement, where it is often necessary to compare the working expenses of different branches (and, in some cases, of different departments), comparison is impossible because the various functions are achieved by expenditures of different nature in the different branches, e.g., some branches are owned and some are rented, and the expenditures are at present classified according to their nature, so that one has a higher charge for rent, and the other for interest, depreciation, etc. The difficulty is accentuated when attempts are made to compare the working expenses of different societies.

Even if attempts are made to compare the expenses of the same branch over a period of years a difficulty arises if the same function is performed by expenditure of a different nature at different times, e.g., if delivery by carrier (represented by carriage or cartage account tendered by the carrier) is replaced by delivery by the society's own carts or motors (represented by additional interest charges on capital and by additional wages). Consideration of these

and similar difficulties has led the Annual Congress of the Co-operative Union to adopt the Standard Balance Sheet* based upon the principle of classification of expenditure according to function. Classification according to function also gives the only satisfactory basis for uniformity in balance sheets, which is something to be desired in the Co-operative movement.

THE CLASSES OF REVENUE EXPENDITURE.

The Principal Three Classes of Revenue Expenditure.

As mentioned above, the principle of classification according to function is now extended to the classification of revenue expenditure.

The first division of revenue expenditure is according to the account in which it will appear—Trading Account, Investments Revenue Account, and Final Revenue Account—the function of the expenditure being different in each case. The Invoice Analysis Book must therefore be ruled in such a manner that these three different classes of revenue expenditure are separately recorded.

Investments Revenue Account and Final Revenue Account Expenditure.

As the Investments Revenue Account and Final Revenue Account contain but few items we can deal with them first, and then devote our attention to the Trading Account, which requires more consideration in regard to classification of expenditure.

The items of expenditure in the Investments Revenue Account are:—

1. Interest Charges:
   - Interest on shares.
   - Interest on loans.
   - Interest on mortgages.
   - Interest on savings-bank deposits.
   - Bank interest.
   - Other interest charges.
2. House Property Account:
   - Interest on capital.
   - Depreciation.
   - Repairs.
   - Rates and taxes.
   - Insurances.
   - Ground rents.
   - Other expenses.
3. Other Property not Used in Trade:
   - Various expenses.

* This balance sheet was prepared by a committee of secretaries appointed by the United Board of the Co-operative Union, and drafted in its final form in consultation with the executive of the Co-operative Secretaries' Association.

All the foregoing items, when they occur, will be classified in the Invoice Analysis Book as Investments Revenue Account expenditure, and entered in the column reserved for that expenditure.

The only item of expenditure that is likely to occur in most societies, and has to be included in the Final Revenue Account, is collective life assurance premiums.

One column for investments revenue expenditure and one column for final revenue expenditure will be all that is required in the Invoice Analysis Book for these classes of expenditure. Where necessary, the separate items can be posted, according to their nature, to the appropriate Impersonal Ledger Account, as explained on pages 79 and 80.

Trading Account.

The classification of trading expenditure varies according to the type of department. The Standard Balance Sheet is based on the recognition of three classes of departments: Distributive, Productive, and Service. Distributive departments are those which, like grocery and drapery departments, are concerned with the retail sale of goods that have been bought for re-sale, or have been transferred from a productive department. Productive departments are those which work up raw materials or semi-manufactured goods into a final condition for sale. A bakery and a dressmaking department are examples of productive departments. Service departments are those which do not manufacture or work up raw materials or semi-manufactured goods, but provide a service. Examples of service departments are laundries, transport departments, window-cleaning departments, and hairdressing departments. Some departments are admittedly on the border line between two of these classes, but a discussion of these cases belongs more properly to the advanced stage of Book-keeping, and need not be entered upon here.

The revenue expenditure in each of these types of department is classified under a few headings of functional significance. These headings, and the items covered by them, are as follows: —

DISTRIBUTIVE DEPARTMENTS.

1. *Goods, including inward carriage.*

Goods bought.
Goods transferred from other departments.

2. *Goods and Stock Charges.*

Insurance and interest on stocks.
Interest on Credit Account.
Proportion of warehouse expenses.

3. *Selling Expenses.*

Wages (shops).
Health and unemployment insurance charges.
Workmen's compensation insurance.
Advertising.
Printing and stationery.
Check books and sheets.
Telephone charges.
Postage and telegrams.
Licences.
Goods for shop use (not for sale).

4. *Delivery Expenses.*

5. *Land, Buildings, and Fixtures Charges.*

Ground rents.
Building rents.
Interest on land, buildings, and fixtures.
Insurance on buildings and fixtures.
Rates.
Taxes on land and buildings.
Depreciation—land, buildings, and fixtures.
Repairs to buildings and fixtures.
Painting and decorating.
Cleaning, lighting, and heating.

6. *General Charges allocated.*

Proportion of—
Office expenses.
Check office expenses.
Committee expenses.
Audit expenses.
Other general expenses.

PRODUCTIVE DEPARTMENTS.

1. *Goods, including inward carriage.*

2. *Manufacturing Costs.*
   Wages.
   Health and unemployment insurance.
   Workmen's compensation insurance.
   Printing, stationery, and advertising.
   Cleaning, lighting, and heating.
   Oil and stores.
   Insurance and interest upon stock.
   Telephone and sundry charges.

3. *Delivery Expenses.*

4. *Land, Buildings, and Fixtures Charges.*
   These items are the same as for distributive departments, except for cleaning, lighting, and heating charges, which appear in manufacturing costs in the case of productive departments.

5. *General Charges allocated.*
   These items are the same as for distributive departments.

SERVICE DEPARTMENTS:—

1. *Direct Costs.*
   Goods and stores.
   Wages.
   Health and unemployment insurance.
   Workmen's compensation insurance.
   Printing, stationery, and advertising.
   Cleaning, lighting, and heating.
   Insurance and interest upon stocks.
   Telephone and sundry charges.

2. *Delivery Expenses.*

3. *Land, Buildings, and Fixtures Charges.*
   These items are the same as for productive departments.

4. *General Charges allocated.*
   These items are the same as for productive and distributive departments.

NOTE.—Some productive and service departments, e.g., farms and works departments, are of a special nature, and the items of expenditure do not exactly coincide with those mentioned above. For these departments special accounts of a more suitable nature are recommended. These accounts, and the grouping of the items in relation to the class headings given above, are treated in Part II. of this book for advanced stage students.

We have given for the three types of departments the functional group headings, and the various items coming under them, for the information of the student, so that he may see the general plan underlying them all. In this elementary stage of study, however, we shall confine our attention to the classifying of the expenditure for a society with only one department—a distributive department. The other types of department will be dealt with in Part II. of this book.

Where a society has more than one distributive department, or has productive or service departments, an extended application of the method employed for the society with one department is all that is required.

The Invoice Analysis Book for Small Societies.

Reverting now to the small society with only one department and that a distributive department, its Invoice Analysis Book will require one column for each of the six functional headings of the Trading Account, and one column each for Investments Revenue Account expenditure, Final Revenue Account expenditure; also one for Capital expenditure. This, it will be seen, is merely an expansion of the three columns used in the illustration in Chapter VII. The expansion permits further classification. In a large society still more columns may be required to permit the more detailed classification that will probably be desired. Indeed, in a large society, separate Analysis Books may be required for goods purchased, for trading expenses, for other expenses, and for capital expenditure; but the need will not arise in a small society, and its requirements can be met with a simpler system, because of the less numerous and less complex nature of its transactions.

The totals of the columns recommended in the foregoing reference to the Analysis Book of a small society will give the essential figures required for the Trading Account of a small society which desires to publish only the total of each class of expenditure, viz., goods, goods and stock charges, selling expenses, delivery expenses, land, buildings, and fixtures charges, and general charges.

Statement of Expenses recorded according to their nature.

It may be desired, however, to compile, and perhaps show in the balance sheet, a statement of the trading expenses,* showing the expenditure upon wages, repairs, insurance, etc., separately. In

* See page five of the booklet, "Standard Balance Sheet," (published by the Co-operative Union Limited), being a specimen balance sheet containing standard accounts.

this statement the expenditure is recorded according to its nature, and not according to its functional classification. The data for the statement can be obtained by opening a Ledger Account for each of these classes of expenditure—wages, repairs, etc., and posting the individual amounts from the Invoice Analysis Book to its appropriate account. This method lends itself to the needs of large societies, where expenses have to be allocated over several departments and branches; and it can also be carried out in small societies, but the staffs of small societies may find it possible to economise time, particularly if they can bring an adding machine into use, by simply running through the Analysis Book and listing each of these classes of expenditure, thus saving the time taken in posting the items to Ledger Accounts. When listed in this way the total of the expenses should, of course, agree with the total of the columns which show the functional classification of the same expenditure.

Expenditure other than Trading Expenditure recorded according to its nature.

The same principle of posting to Ledger Accounts can be applied in the case of the items of investments revenue expenditure, final revenue expenditure, and capital expenditure. Separate Ledger Accounts can be opened as required for each class of expenditure coming under these group headings, e.g., share interest, loan interest, various items of house property expense, etc., for investments revenue expenditure, and for land, for buildings, for fixtures, and for rolling stock under the heading of capital expenditure.

We may now proceed to examine a page of an Invoice Analysis Book ruled to meet these needs. It will satisfy the requirements of a small society. The following is a specimen page:—

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
							Trading Account Charges.								
Invoice No.	Personal or Purchases Ledger Folio.	Date.	Name.	Nature of Expense.	Impersonal Ledger Folio.	Total.	Goods.	Goods and Stock Charges.	Selling Expenses.	Delivery Expenses.	Land, Buildings, and Fixtures Charges.	General Charges Allocated.	Investments Revenue Account Charges.	Final Revenue Account Charges.	Capital Expenditure.
						£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.

The first column takes the number of the invoice, the amount of the invoice being already entered in the Purchases Ledger for the personal entry. The invoice will bear the number of the folio in the Purchases Ledger, and this number is entered in the second column, whilst the date of the invoice is entered in the third column, and the name of the firm issuing the invoice is entered in the fourth column. The nature of the expenditure, e.g., goods, repairs, rents, etc., is entered in the fifth column. The sixth column is reserved for recording the number of the folio in the Nominal or other Ledger, to which the item is posted for the purpose of preparing the statement of expenses which records the amount of each class of expense according to its nature, e.g., Repairs Account; and column five will indicate to which account the item has to be posted.

The total of the invoice is entered in column six, and in the succeeding columns the amount of the invoice is entered under its appropriate heading. If the invoice refers to more than one class of expenditure, the amount is distributed by analysis over the appropriate columns. Rents, for example, may have to be distributed over land, buildings, and fixtures charges (for shops) and general charges (for office). Reference to the individual items given under the group headings on pages 76 and 77 will indicate the appropriate column for each item relating to the Trading Account. In a small society with only one department all the general charges will be entered in column 13. Allocation of general charges becomes necessary only when there is more than one department or branch over which the general expenses have to be spread. The recording, in appropriate Ledger Accounts, of the individual items which are entered in columns 14, 15, and 16 has already been explained.

An illustration of the entries in an Invoice Analysis Book is given in Chapter XI., where a society's transactions for a month are entered.

SUMMARY.

The classification of expenditure, which in Chapter VII. was confined to the separate recording of goods purchased, expenses, and capital expenditure, has now to be carried a stage further.

The Standard Balance Sheet requires expenditure to be classified according to function. In classifying according to function we look to the purpose to be served rather than to the nature of the expenditure. Functional classification is desirable because it facilitates comparisons between different branches, different periods, and different societies. It also provides the only satisfactory basis for uniformity in balance sheets, a uniformity that is to be desired in the Co-operative movement.

The classification of expenditure as (1) Trading expenditure, (2) Investments Revenue Account expenditure, (3) Final Revenue Account expenditure, and (4) Capital expenditure, is a primary classification according to function. Trading expenditure of distributive departments can be further classified on a functional basis as (1) goods; (2) goods and stock charges; (3) selling expenses; (4) delivery expenses; (5) land, buildings, and fixtures charges; and (6) general charges allocated. (Productive and service departments are to be considered in the advanced stage.)

The necessary records of the six classes of Trading Expenses and the other three primary classes (investments revenue, final revenue, and capital expenditure) can be secured by a development of the Invoice Analysis Book mentioned in Chapter VII. by providing it with nine analysis columns. This Invoice Analysis Book also contains columns for the total of each invoice and other particulars, such as the nature of the expense. The individual items entered in the Analysis Book can be posted according to their nature to Ledger Accounts -one Ledger folio being reserved for each class of expenditure; and these Ledger Accounts provide the data for a published list of expenses.

QUESTIONS AND EXERCISES.

1. Explain the meaning of "classifying expenditure according to its nature," and give three examples to illustrate your answer.

2. What is the meaning of "classifying expenditure according to function"? Give two examples of this classification to show how it differs from classification according to the nature of the expenditure.

3. What are some of the advantages to be gained by classifying expenditure according to function?

4. Mention the four primary functional classes into which expenditure can be divided to meet the needs of the Standard Balance Sheet, and name the six functional group headings adopted for use in the Trading Account of distributive departments.

5. Write out the six functional groupings of expenditure adopted for the Trading Account of distributive departments, and write out a list of the items included in each of these groups.

6. What items and group headings appear on the Dr. side of the Investments Revenue Account?

7. Prepare a specimen page ruling of an Invoice Analysis Book, with its nine analysis columns, as explained in this chapter, and include the column headings.

8. How can a statement of expenditure according to nature be compiled from an Invoice Analysis Book, as prepared in answer to Question 6?

9. Explain the entry of invoices in the Invoice Analysis Book, ruled in accordance with Question 6.

10. Prepare an Invoice Analysis Book, and enter the following items:—

	£
Jan. 1.—Bought goods from C.W.S. Ltd.	80
,, 2.—Bought goods from S. Smith	50
,, 2.—Paid carriage on goods from Smith	2
,, 3.—Bought motor-van	250
,, 4.—Received invoice for repairs to shop	10
,, 5.—Paid wages—shop	10
,, 5.—Paid wages—office	5
,, 5.—Paid rent—shop, £4; office, £1	5

11. Prepare an Invoice Analysis Book, and enter the following items —

		£
Jan.	8.—Bought goods from John Jones	50
,,	8.—Bought goods from C.W.S. Ltd.	80
,,	8.—Received account for advertising from J. Smith	5
,,	8.—Received bill for telephone charges	1
,,	9.—Received bill for painting shop	35
,,	9.—Received account from auditors	5
,,	9.—Paid committee fees	3
,,	12.—Share interest for quarter	85
,,	12.—Paid wages—shop, £4; office, £1	5
,,	12.—Bought new fixtures for shop	20

12. Assuming continuity of the items of Questions 10 and 11, prepare the Ledger Accounts for recording the expenditure according to its nature, and prepare a Statement of Trading Expenses (according to nature) for the period January 1st to January 12th.

CHAPTER IX.

RECORDING OF SALES, RETURNS, AND CREDITS.

THE method of recording sales depends upon the type of the business. A manufacturing business, or wholesale business selling in bulk on credit, will adopt a method different from that adopted by a retail business selling for cash. Thus a productive society will require a Sales Day Book in which each outward invoice will be separately recorded; whilst a retail distributive business will find that its cash receipts for goods sold are a record of sales if the business is conducted for cash. As both types of society are to be found in the Co-operative movement, it is necessary to explain both methods. We will first deal with the Sales Day Book for a productive society.

Sales Day Book for Productive Societies.

When goods are sent out by the society, the warehouseman will make a record of the goods dispatched. The nature of the book in which the record is kept will depend upon the kind of business in which the society is engaged. The book may be a Packer's Book, in which are entered the details of goods packed; from this book the warehouseman will make out advice notes to customers; and from the copies of the advice notes the office will enter up the Sales Day Book and make out the invoices. Or the warehouse, or office, may make out the invoices from the Packer's Book or from a Delivery Book, and the invoices may be sent with the goods. Or, again, each packer may supply the warehouse foreman or office with a slip containing the particulars of each lot of goods packed for delivery, and these slips may form the basis of entries to be made in an Advice Note Book or a Warehouse Delivery Book, from which the Sales Day Book and invoices are prepared, or the invoices themselves may be made out direct from the slips.

If the invoices go with the goods, the Sales Day Book will probably be entered from the Invoice Copy Book, a duplicate copy of every invoice being retained in it. If the invoices are sent after the goods have been dispatched, the Sales Day Book will probably be made up first and the invoices made out by copying the items from the Sales Day Book.

The question will arise in regard to the Sales Day Book that arose in regard to the Purchases Day Book: Should each item on the invoices be entered in the Sales Day Book, or only the total of each invoice? An answer to this question must depend largely upon the nature of the business; and every society will decide the question according to its own circumstances and methods of working; but the student must understand both methods. Let it be supposed that each item is to be in the Sales Day Book, and that this book is to be entered up from the Packer's Book, the Advice Book, or Delivery Book. The general style of book will be the same as that outlined for a simple Purchases Day Book on page 64, but a form of Analysis Book with columns for various classes of goods can be employed for sales, where the need exists for classifying the sales according to departments or the nature of goods sold. Assuming this classification is not required, the Sales Day Book for a month might appear as follows:—

SALES DAY BOOK, JANUARY, 1926.*

Ledger Folio.	Date.	Purchaser and Goods Sold.	Price.	Amount.	Total.
			s. d.	£ s. d.	£ s. d.
		—1—			
		Blankspot Co-operative Society Limited.			
	Jan. 1	1 doz. pairs Ladies' Shoes, "Elby," No. 6	13 6	7 10 0	
...	,, ,,	2 ,, ,, "Violet," No. 5	14 0	16 16 0	24 6 0
		—4—			
		Redpath Co-operative Society Limited.			
	Jan. 4	2 doz. pairs Ladies' Shoes, "Violet," No. 5	14 0	16 16 0	
...	,, ,,	½ ,, ,, "Crocus," No. 6	15 0	4 10 0	21 6 0
		—7—			
		Deanthorpe Co-operative Society Limited.			
	Jan. 7	3 pairs Ladies' Shoes, "Elby," No. 5	12 6	1 17 6	
...	,, ,,	½ doz. pairs Ladies' Shoes, "Violet," No. 5	14 0	4 4 0	6 1 6
		—11—			
		Redpath Co-operative Society Limited.			
...	Jan. 11	1 doz. pairs Ladies' Shoes, "Lily," No. 6	15 0	9 0 0	9 0 0
		—18—			
		Blankspot Co-operative Society Limited.			
	Jan. 18	2 doz. pairs Ladies' Shoes, "Elby," No. 5	12 6	15 0 0	
...	,, ,,	1 pair Specials, No. 6	16 0	0 16 0	15 16 0
		—23—			
		Combe Co-operative Society Limited.			
...	Jan. 23	1 doz. pairs Ladies' Shoes, "Lily," No. 5	15 0	9 0 0	9 0 0
		—26—			
		Deanthorpe Co-operative Society Limited.			
...	Jan. 26	1 doz. pairs Ladies' Shoes, "Lily," No. 6	15 0	9 0 0	9 0 0
		—30—			
		Fulthwaite Co-operative Society Limited.			
...	Jan. 30	3 pairs "Specials," No. 5	...	2 2 0	2 2 0
				£96 11 6	£96 11 6

* No account has been taken in the foregoing description of a Sales Book of cases and other packages which are often charged.

If it is not desired to record the items of each invoice, the same general plan outlined above can still be followed, only the total amount of each invoice being entered, and the details omitted.

From the Sales Day Book to the Ledger.

The entries in the Sales Day Book form the starting point for two classes of Ledger entry: the personal entries—the entries in the accounts of the purchasing societies in the Sales Ledger—and the impersonal entry, or entries, in the Goods Sold Account or Sales Account. The Personal Account items are the totals of the various invoices, and, of course, are entered on the debit side. The Impersonal Account item is the total sales for the month posted to the credit of the Goods Account, the Goods Sold Account, or the Sales Account,* according to the name given to the account in which the sales are recorded. If the society had been one dealing in more than one type of article it might have desired to keep separate records of each class of article, and in this case the sales during each month would have been analysed, the sales of each class summarised at the end of the sales each month, and the total sales of each class posted to a separate Sales Account.

Statement of Account.

Periodically—weekly, monthly, or other definite interval—a statement showing what he owes is sent to each customer against whom there are outstanding items. It gives particulars of the date and amount of each invoice that is unpaid. These statements are made out from the individual accounts in the Sales Ledger, where the personal accounts of debts are recorded. It is customary for debtors to check these statements with the items in their own Ledger, and pay the accounts from the statement, returning the statement with the cheque sent in settlement of the account. The following is an example of a statement:—

January 30th, 1926.

The Greenvalley Co-operative Society Ltd.

Dr. to LONDON PRODUCERS LTD.,
BROWN STREET, LONDON, W.C.1.

		£	s.	d.
Jan. 5	To Goods	10	0	0
,, 11	,, ,,	18	0	0
,, 26	,, ,,	13	0	0
,, 28	,, ,,	7	0	0
		£48	0	0

* The Goods Account referred to in earlier chapters can be advantageously divided into two accounts: a Goods Purchased Account, or Purchases Account, and a Goods Sold, or Sales Account.

Recording Sales in a Retail Distributive Society.

In the case of a retail distributive society it is not as necessary to keep a Sales Day Book as it is in a productive society selling to other societies and giving credit. In a retail distributive society the sales are usually for cash, and cash receipts, therefore, form a record of sales. Where credit is given by a society, an adjustment allowing for debts outstanding has to be made at the end of the trading period, or at intervening dates, if the precise value of sales has to be ascertained from the cash receipts.*

Following the precedent of Chapter VII., we will confine our attention for the time being to a retail society with only one department, in which cash trading is the rule. In such a society the daily cash receipts in the shop will be the value of sales effected. The shop manager will pay to the office every day the cash received, and along with the cash will present a statement of the cash paid over. This amount should agree with the checks issued, and this agreement between checks and cash can be checked by the check office staff. The office staff will enter the amount in the Cash Book as " Shop Takings," or " Cash for Goods Sold."

The transactions in the case of the shop sales are in the nature of double transactions, which were explained in Chapter III. No debit and credit account of a personal nature is kept. The Cash Account is debited with the amount of cash received, and from the Cash Account the amount is posted to the credit side of the Goods Account, Goods Sold Account, or Sales Account.† In this way the double entry for the sales items is effected. A shop may, of course, receive cash that is not intended as payment for goods, e.g., in some societies the members pay cash at the shops for share capital, for holiday clubs, etc. Where cash is received for a variety of purposes the statement of cash paid over by the shop manager should include a summary showing the various purposes for which the cash has been paid, so that cash received for goods and for other purposes can be separately recorded in the office.

Credit Transactions.

Where a society sells on credit, a record of the sales to each person to whom goods are sold on credit must be kept. Usually this takes the form of a Shop Ledger, with a page for each credit customer's account; and each member may have a copy of this

* See page 89. † See footnote, page 87.

account in book or other form. In order to ascertain the actual sales where credit is given, a statement must be prepared when the information is required. The following form meets the need:—

	£	s.	d
Debts owing at end, as per Shop Ledger	37	5	6
Bad Debts written off during period	5	0	0
Cash received for Goods during period.....	1620	3	6
	1662	9	0
Less Debts owing at beginning, as per last Account...	24	4	8
Sales for period	1638	4	4

An adjustment on these lines is required before the figure of sales for the Trading Account can be ascertained. The debts owing at the end appear as an asset in the balance sheet.

The Cash Book and Ledgers are dealt with in later pages, where the student will be able to follow the posting of items of sales from the Cash Book to the Sales Account in the Impersonal Ledger.

Returns and Credits.

It often happens that goods bought by a society are returned on account of their being defective, or for some other reason. Where the invoice for the goods cannot be cancelled or reduced by the value of the returns—and this is often impossible when the entries have been made in the Purchases or Sales Day Book—it is usual for the party to whom the goods are returned to issue a credit note. A credit note is the opposite of an invoice. Whilst the invoice charges the purchaser with an amount, the credit note credits him with an amount. Credit notes are also issued where a firm has overcharged a purchaser, or is making a purchaser an allowance from the charge made in an invoice previously sent.

The following is an example of a credit note. Inward credit notes should be stamped and checked in the manner recommended in Chapter VII. for invoices:—

January 15th, 1926.

The Greenvalley Co-operative Society Ltd.

Credited by LONDON PRODUCERS LTD.
BROWN STREET, LONDON, W.C.1.

	£	s.	d.	£	s.	d.
By Allowance for Goods returned—						
6 pairs of Boots, @ 12s. 6d.....	£3	15	0	3	15	0

Where credits are numerous, as they may be, for example, in a business which charges for packages and makes an allowance when they are returned, a separate book, ruled like the Purchases and Sales Books, may be kept and designated "Credits Book." The individual items are posted from this book to the credit of the customer who has previously been debited, and the Sales Account (or other appropriate account) will be debited. Thus the debtor's liability is reduced, and the value of sales is correspondingly reduced. When the firm returning the goods, or claiming the allowance, receives the credit note it will debit the account of the issuer of the credit note, and credit the account to which the amount was previously debited. This firm may keep an "Outward Returns Book" if its returns are numerous, and use this book as the beginning point for the entries of credits in its Ledgers.

Where credits are few, and a separate Credits Book is not kept, the firm issuing the credit can enter the amount in its Sales Book in red ink, and at the end of the month it can total the credits in the manner that the sales are totalled. The total of the sales is, of course, posted to the credit of the Sales Account, and the total of the credits must be posted to the debit of the same account. The individual items of sales are posted to the debit of each purchaser's account, and the individual items of credits are posted to the credit of those persons' accounts. The firm to whom the credits are issued can likewise enter the credits in red ink, but in the Purchases Book, or Invoice Analysis Book, the credits being totalled at the end of the month and credited to the Purchases, or Goods, Account in the Ledger, the individual items being debited to the account of the firm issuing the credit. If the Invoice Analysis Book is in use, the credits can be analysed as the purchases and expenses are analysed; and the amount of the credits in each column may be deducted from the expenditure recorded in that column, thus reducing the total of each class of expenditure to a net figure.

SUMMARY.

The method of recording sales depends upon the type of business. A manufacturing business, or wholesale business selling in bulk on credit, will require a Sales Day Book, but in a retail business the cash receipts are a record of goods sold, the name of the individual purchaser not being recorded unless it is for some subsidiary purpose such as claims to dividend.

The Sales Day Book may be entered from the invoice, or the invoice may be made out from the Day Book, according to the nature of the business.

The packer's notes or warehouse records are the source from which the Day Book is entered, or from which the invoices are made out if the invoices provide the basis for the Day Book entries.

The individual totals in the Sales Book are posted to the debit of the purchasers' accounts, and the total of the Sales Book for the month is posted to the credit of the Goods Account or Sales Account. If the business has several departments, and it is desired to keep a record of the sales of each department, an analytical form of Sales Book can be used, one column being allocated to each department, and the total of the column being posted to a separate Ledger Account kept for recording the sales of that department.

It is customary for firms, such as manufacturers and wholesale merchants, who sell in large quantities on credit, to send to their customers at regular intervals a "statement" which shows the amount owing at the date of the statement.

The sales of a retail distributive society can be recorded from the cash receipts. Whilst in a big society a separate Cash Book may be kept for recording these sales according to department, the total receipts being entered in the General Cash Book, the daily receipts for goods sold in a small society may be entered direct into the Cash Book.

Cash sales are in the nature of "double transactions." No Personal Accounts are kept, and the items of sales in the Cash Book (which there appear on the debit side) are posted to the credit side of the Sales Account.

Where a society gives credit an adjustment has to be made at balancing periods, in order to ascertain the actual sales for the period just ending. This adjustment must take account of debts owing at the beginning and end of the period, of bad debts written off during the period, and cash received for goods during the period.

Credit notes are documents issued by a firm to which goods have been returned, or by one which is making some allowance for an overcharge, etc. The entries corresponding to these credit notes are entered either in special books for recording returns and allowances, or in red ink in the Purchases and Sales Books, and are posted to the sides of the Personal and Impersonal Accounts opposite from those upon which are entered the invoice amounts to which these credits relate.

QUESTIONS AND EXERCISES.

1. Why does the method of recording the sales of a productive or wholesale business differ from the method of recording the sales of a retailer's business?

2. What are the different methods of recording the sales in the types of business mentioned in Question 1?

3. Prepare the Sales Day Book of the Unique Co-operative Society Ltd., Banktown, recording the following items:—

		£
Jan. 1.—	Sold John Bacon, 1 doz. suits	30
,, 2.—	,, Gem Co-operative Society, 3 costumes	9
,, 4.—	,, C.W.S., 2 doz. velour hats	12
,, 6.—	,, Fraser and Langton, 6 suits	12
,, 8.—	,, Wardle and Jones, 6 costumes	18

Total the sales, and say where the individual items and the total sales are posted.

4. Make out the six invoices for the items recorded in Question 3.

5. From what various sources may the Sales Day Book of a manufacturing business be entered?

6. What is a "statement?" Who sends it out, and when? What useful purpose does it serve?

7. Prepare a statement containing six items.

8. What is the usual basis of recording the sales of a retail business? What limitation is there to this basis as a precise record of sales in some retail businesses? How are the sales finally ascertained for Ledger purposes in these businesses?

9. A society giving credit reported cash received for goods during one quarter £3,500. Debts at the beginning of the quarter amounted to £185, and at the end to £153. What were the actual sales for the quarter?

10. If a society's sales during a quarter amounted to £5,000, its members' debts to begin to £300, and its debts to end to £400, what would you expect to be the cash receipts for sales during the quarter?

11. What is a credit note? For what purposes are credit notes issued?

12. How are credits treated in the books of a business? Trace the entries through to the Personal and Impersonal Ledger Accounts.

CHAPTER X.
THE CASH BOOK AND THE PETTY CASH BOOK.

The Cash Book and the Cash Account.

IN Chapter IV. an explanation of a statement of receipts and payments was given, and it was there pointed out that such a statement is a Cash Account. The data of the Cash Account in a balance sheet are the entries in the Cash Book. In this book, receipts and payments are entered in succession as they arise. The Cash Account in the balance sheet summarises all receipts of one class in one total, and all payments of one class in one total. Thus all the individual items appearing in the Cash Book as repayments of share capital appear in one total in the Cash Account published in the balance sheet.

The Rulings of the Cash Book.

The simplest form of Cash Book is one ruled on both Dr. and Cr. sides, with three cash columns, as shown in the following example. The first of the cash columns on each side is for discount;* the second is for cash received or paid, and not paid directly into, or from, the bank; and the third is the bank column, payments into the bank being entered on the Dr. side, and payments made by cheque, and therefore through and by the bank, on the Cr. side.

In retail distributive societies there is little use for the discount columns. Discount is not allowed in the ordinary way to members or others who buy goods, and if for some special order a discount is allowed, the charge is usually reduced to a net charge, and therefore no item of discount appears in the books or accounts in such cases.

* Discount is an allowance at an agreed rate from the sale price. Trade discount is an allowance to persons "in the trade" and not given to the retail purchaser. It often constitutes the retailer's profits, and is deducted on the invoice. Ordinary discount is an allowance made to those who pay according to the terms of sale, e.g., "5 per cent one month" means that 5 per cent is allowed to those who pay in one month, the discount being disallowed, or allowed at a reduced rate, if the term allowed for payment is exceeded. Cash discount is an extra discount allowed for payment of the account immediately the goods are delivered, i.e., for prompt cash.

Discount is, however, frequently allowed to retail societies by the merchants from whom they buy goods; but instead of entering the gross value of the goods as a purchase, and entering the discount in the Cash Book, it is customary to reduce the gross value to net value by deducting the discount from the gross amount on the invoice itself and entering only the net value as a purchase. In the case of some productive societies, however, the usual method of treating discount employed by commercial houses is followed, and it will be explained here, so that the student may understand it, even if he does not require to follow it in the society in which he is serving. The following is the ruling of a Cash Book providing for discount columns:—

Dr. *Debtor Side.*

Date.	Ledger Folio.	Narration.	Receipt No.	Discount.			Cash.			Bank.		
				£	s.	d.	£	s.	d.	£	s.	d.

Creditor Side. *Cr.*

Date.	Ledger Folio.	Narration.	Receipt No.	Discount.			Cash.			Bank.		
				£	s.	d.	£	s.	d.	£	s.	d.

The Entries in the Cash Book.

We will examine the debtor side first. The principal classes of entries on this side will be (1) share capital received; (2) loan capital received; (3) savings-bank deposits received; (4) interest received on share and loan investments; (5) cash received for goods sold. In most distributive societies, except the very smallest, the separate items of most of these classes of receipt, because of their number, are entered in special books, known as " subsidiary books," e.g., Share Capital Contributions Book. The daily total only of each class of entry is then entered in the Cash Book. For the purpose of illustrating the principle, we can, however, ignore these subsidiary books at this stage, after noticing their relationship to the Cash Book proper. Still thinking of a small society, we can enter the individual items in the Cash Book, and, at a later stage, when the subsidiary books have been explained, we can enter daily totals instead of the individual items, which will then be found in the subsidiary books.

Examining now the rulings of the Cash Book, Dr. side, we find the first column allocated to the date. The second column is allocated to the Ledger folio, this being the folio in the Ledger to which the item in the Cash Book is posted. The third column is for the narration. In this column is entered the name of the account in which the entry corresponding to that in the Cash Book is found. The Ledger folio, quoted in the Ledger folio column, indicates the folio of this account, e.g., if £5 is received from John Smith, his name will appear in the narration column when the amount is entered in the Cash Book, and when the item is posted to his account in the Ledger, the folio of that account will be inserted in the Cash Book reference column. The next column is kept for entering the reference to the source of the entry in the Cash Book. If the entry is from a numbered receipt book, the number of the receipt will be entered; if from a shopman's numbered statement of cash paid into the office, the number of that statement will be entered in this column. In this way, easy reference is provided to the source from which the item has been entered, and any necessary checking of the item by the staff or auditors is facilitated.

The first of the £ s. d. columns is for discount allowed *by* the society. (In this connection it should be remembered that

discount in the Cash Book always goes on the same side as the cash item with which it is connected. This observation is necessary, for students often find a difficulty in understanding why something that is not received should be entered on the receipts side. Such discount should not be spoken of as discount *received* or *paid*, but as discount *allowed by* the society). The second of the £ s. d. columns is for cash items, and the last one for bank items. If a cheque is received it should be entered direct into the bank column; if cash is received it should be entered in the cash column. Only when the cash is later paid into the bank should it be entered in the bank column: the method of entering such items will be explained later, when some specimen entries will be described. At the end of each month, or trading period, the various £ s. d. columns will be totalled and the totals will be balanced or posted; but this process can be more satisfactorily explained when the payments side—i.e., the Cr. side—of the Cash Book has been explained.

The Cr. side of the Cash Book has rulings similar to those on the Dr. side. The first is for the date, the second for the Ledger folio reference, the third for the narration, the next for the number of the remittance note sent by the society with its cheques, or for the cheque number, or for any other reference number which will facilitate the tracing of the entry, whilst the last three are (1) for discount (allowed *to* the society), (2) for payments in cash, and (3) for payments by cheque. The most important classes of payment are (1) share capital and dividends paid out; (2) loan capital repaid; (3) savings-bank repayments; (4) trade accounts and expenses paid. Just as there are subsidiary books for various classes of receipts, so also there are subsidiary books for various classes of payments; but for the purpose of illustrating the Cash Book we can take the case of a very small society, which does not need the subsidiary books.

Balancing the Cash Book.

At the end of the month, or trading period, the Cash Book is balanced. The discount columns are totalled—not balanced. The total of the discounts on the debit side, the individual items of which will have already been posted with the cash received to the credit side of the personal account of the payer, will be posted to the debit side of the Discount Account in the Nominal Ledger, thus completing the double entry; whilst the total of the discounts

on the credit side will be posted to the credit side of the Discount Account in the Nominal Ledger.

The cash column on the Dr. side shows all cash received, whilst the cash column on the Cr. side shows all cash paid away. The difference between receipts and payments is the amount of cash that should be in hand. The amount of this difference is the "balance." It is entered on the lesser side; the two sides of the Cash Account are totalled and now give the same total, whilst the "balance" is transferred to the Dr. side as the first entry for the next month. Similarly, the items in the bank column on the Dr. side represent payments into the bank, whilst the items in the bank column on the Cr. side represent payments made by the bank on behalf of the society, i.e., payments out of the bank. Unless the society has an overdraft, the total of the Dr. side will be greater than the total of the Cr. side—receipts paid into the bank, including the balance of cash to begin, will be greater than payments out of the bank. The difference is the surplus at the bank—the bank balance. The amount of this difference is entered on the lesser side, and transferred to the opposite side of the Cash Book to serve as the first entry for the next month. When the two sides are now totalled, with the balance inserted, the totals will agree.

How the Double Entry of Cash Items is achieved.

The individual items of cash received will have already been posted to the credit of individual accounts, personal or impersonal, and the total of the receipts in cash is the corresponding debit entry. On the other side of the book, the individual payments in cash will already have been debited to individual accounts, and the total of the payments in cash is the corresponding credit entry. But these totals of the cash column in the Cash Book are not usually posted to any Ledger Account. How, then, is the principle of double entry maintained? It is maintained by the practice of balancing. If the receipts are £1,000 and payments £600, debits in the Cash Book exceed credits by £400. It makes no difference to the balancing of debits and credits whether we say debits £1,000, credits £600, or we say debits £400, credits nil. When we balance a Cash Account with receipts (debits) £1,000 and payments (credits) £600 we carry to the next page £400, the balance, as a debit item for the first entry of the next month. The balancing of the account and the carrying

forward of the balance maintains the right correspondence between debits and credits. Similarly, the balancing of the bank columns, and the carrying forward of the balance of these columns, maintains the correspondence between debits and credits of bank items.

Bank Interest, Charges, and Dividend.

One more matter needs to be explained before we proceed to consider the entry of some typical items in the Cash Book. If a society maintains a credit balance at the bank, i.e., if the society has a surplus there, it will receive interest upon that balance; and the bank must be debited with the amount of this interest by entering it in the bank column on the debit side of the Cash Book. If the society has an overdraft at the bank, the society will be a debtor for interest on the overdraft, whilst the bank will be a creditor for the amount and must therefore be credited with it in the bank column in the Cash Book. If the bank makes any charge for cheque books, or for commission for the banking business undertaken for the society, the bank must likewise be credited with the amount of its charges by the making of an entry for this amount in the bank column on the Cr. side of the Cash Book. The entries for interest and charges being made in the Cash Book, the total of the entries in the Bank Pass Book* should agree with the total of the entries in the bank column in the Cash Book, except for cheques outstanding, and these can be adjusted as explained in a later chapter which deals with the Bank Account.

Some Typical Entries in the Cash Book explained.

The entries in the Cash Book can be best understood if we take some typical items of a small society and enter them. Let it be supposed, then, that John Smith, Frank Lord, Tom Yates, Henry Ford, Fred Kale, Charles Evans, and Frank Booth, register a Co-operative Society, of which they are the original members, and commence operations on January 1st, 1926, when each of them pays in £10 as share capital. Let it be further supposed that the following are the transactions of the society for the first two weeks. We are required to enter the receipts and payments in the Cash Book.

* This is the book issued by the bank to each customer, and is a record of that customer's account in the bank's books.

TRANSACTIONS OF THE SMALLWAY CO-OPERATIVE SOCIETY, JANUARY 1ST TO JANUARY 16TH, 1926.

	£
Jan. 1.—Received cash for share capital	70
,, 1.—Paid into bank	60
,, 1.—Bought goods from the C.W.S.	50
,, 1.—Bought goods from Tong and Lord	20
,, 2.—Shop takings	10
,, 4.—Shop takings	10
,, 5.—John Stone and Mrs. Mary Jones join society and each pays as share capital	5
,, 5.—Banked cash	25
,, 5.—Shop takings	10
,, 5.—Paid C.W.S. by cheque	50
,, 5.—Bought goods from C.W.S.	60
,, 6.—Bank debit account for cheque book	10/-
,, 6.—Banked cash	10
,, 7.—Frank Lee joins society and pays towards share capital	1
,, 7.—Shop takings	5
,, 8.—Shop takings	10
,, 9.—Shop takings	10
,, 11.—Banked cash	20
,, 11.—Paid wages	4
,, 11.—Shop takings	5
,, 12.—Shop takings	5
,, 13.—Invested in shares, C.W.S., and paid cheque	30
,, 13.—Shop takings	10
,, 14.—Shop takings	5
,, 15.—Shop takings	10
,, 16.—Shop takings	15
,, 16.—Banked cash	50
,, 16.—Paid wages	4
,, 16.—Paid C.W.S. by cheque	60
,, 16.—Paid Tong and Lord by cheque	20
,, 16.—John Smith withdrew £2, Share Account	2

It will be remembered that items on the Dr. side are to be preceded by the word "To" and those on the Cr. side by the word "By." For purposes of illustration the three-column Cash Book will be employed in entering the above transactions, but no item of discount occurs, and the Discount column might be omitted. On the next page the Cash Book, with the foregoing items entered, is shown.

Dr. CASH ACCOUNT—JANUARY, 1926. *Cr.*

Date.	Ledger Folio.		Ref. No.	Discount. £ s. d.	Cash. £ s. d.	Bank. £ s. d.	Date.	Ledger Folio.		Ref. No.	Discount. £ s. d.	Cash. £ s. d.	Bank. £ s. d.
1926.													
Jan. 1	...	To John Smith, Share Account	...	.....	10 0 0	.....	Jan. 1	...	By Bank	...	.....	60 0 0	.....
,, 1	...	,, Frank Lord, Share Account	...	.....	10 0 0	.....	,, 5	...	,, ,,	...	.....	25 0 0	.....
,, 1	...	,, Tom Yates, Share Account	...	.....	10 0 0	.....	,, 5	...	,, C.W.S., Trade A/c.	...	.....	.....	50 0 0
,, 1	...	,, Henry Ford, Share Account	...	.....	10 0 0	.....	,, 6	...	,, Expenses, Cheque Book	...	.....	.....	0 10 0
,, 1	...	,, Fred Kale, Share Account	...	.....	10 0 0	.....	,, 6	...	,, Bank	...	.....	10 0 0	.....
,, 1	...	,, Charles Evans, Share Account	...	.....	10 0 0	.....	,, 11	...	,, ,,	...	.....	20 0 0	.....
,, 1	...	,, Frank Booth, Share Account	...	.....	10 0 0	.....	,, 11	...	,, Wages	...	.....	4 0 0	.....
,, 1	...	,, Cash	...	.....	.....	60 0 0	,, 15	...	,, C.W.S., Share A/c.	...	.....	.....	30 0 0
,, 2	...	,, Sales, Shop Takings	...	.....	10 0 0	.....	,, 16	...	,, Bank	...	.....	50 0 0	.....
,, 4	...	,, ,, ,,	...	.....	10 0 0	.....	,, 16	...	,, Wages	...	.....	4 0 0	.....
,, 5	...	,, John Stone, Share Account	...	.....	5 0 0	.....	,, 16	...	,, C.W.S., Trade A/c.	...	.....	.....	60 0 0
,, 5	...	,, Mrs. Mary Jones, Share Account	...	.....	5 0 0	.....	,, 16	...	,, Tong and Lord	...	.....	.....	20 0 0
,, 5	...	,, Cash	...	.....	.....	25 0 0	,, 16	...	,, John Smith, Share Account	...	.....	2 0 0	.....
,, 5	...	,, Sales, Shop Takings	...	.....	10 0 0	.....	,, 16	...	,, Balance of Cash in hand and at Bank	...	.....	11 0 0	4 10 0
,, 6	...	,, Cash	...	.....	.....	10 0 0							
,, 7	...	,, Frank Lee, Share Account	...	.....	1 0 0	.....							
,, 7	...	,, Sales, Shop Takings	...	.....	5 0 0	.....							
,, 8	...	,, ,, ,,	...	.....	10 0 0	.....							
,, 9	...	,, ,, ,,	...	.....	10 0 0	.....							
,, 11	...	,, Cash	...	.....	.....	20 0 0							
,, 11	...	,, Sales, Shop Takings	...	.....	5 0 0	.....							
,, 12	...	,, ,, ,,	...	.....	5 0 0	.....							
,, 13	...	,, ,, ,,	...	.....	10 0 0	.....							
,, 14	...	,, ,, ,,	...	.....	5 0 0	.....							
,, 15	...	,, ,, ,,	...	.....	10 0 0	.....							
,, 16	...	,, ,, ,,	...	.....	15 0 0	.....							
,, 16	...	,, Cash	...	.....	.....	50 0 0							
...	...	To Balance of Cash in hand and at Bank brought down	...	.....	186 0 0 11 0 0	165 0 0 4 10 0					.....	186 0 0	165 0 0

Examining first the items on the debit side (i.e., receipts side) of the Cash Book, the first seven entries are contributions of various individuals for share capital. These items are entered in the cash column—the cash department is a debtor for these amounts received. The individual items will be posted to the credit of each member in his account in the Share Ledger. The Share Ledger folio of each member will be inserted in the reference column in the Cash Book. The eighth item needs more explanation. It is a debit to the Bank Account of £60, and must be considered along with the item of £60 in the cash column on the credit side; £60 of cash is paid into the bank. The cash department pays out the £60 and must therefore be credited with it, whilst the bank, which receives it, must be debited. (If cash is withdrawn from the bank the Bank Account must be credited by an entry in the bank column on the Cr. side, and the cash department debited by an entry in the cash column on the Dr. side.) These are known as *contra* entries, and in the reference column on each side the sign C/–, meaning *contra*, will be entered. Shop takings are debited to cash and posted to the credit of the Sales Account in the Ledger. The contributions of share capital by John Stone and Mary Jones are treated in the same way as the items of share contributions previously explained. The remaining items are also of the same type as others already explained.

The entries on the credit side begin with the payment of cash to the bank. The transfer which includes this item has already been explained. The third item is a payment by cheque to the C.W.S. for goods supplied. As the payment has been made by the bank on behalf of the society, the Bank Account is credited with the amount of the cheque by an entry in the bank column of the Cash Book. The C.W.S. will already have been credited on January 1st with the value of goods bought (£50), and will now be debited with the amount of cheque payment (£50), whilst the necessary references will be entered in the reference columns. The bank is credited already with the value of the cheque book by the entry of 10s. in the bank column, and the amount will be posted from the Cash Book to the Invoice Analysis Book, and the item "wages" will likewise be posted to that book. The payment of £30 by cheque to the C.W.S. for a share investment is, quite rightly, a credit entry in the Bank Account. It will be posted from the Cash Book to the debit of the C.W.S. Share Investment Account in the Ledger. The only other item among the payments

which introduces a new type of entry is the repayment of £2 share capital to John Smith. Cash is quite correctly credited with this payment; and the amount will be duly posted from the Cash Book to the debit of Smith's Share Capital Account, which will be reduced by this posting to £8 net.

Balancing the Cash Book.

After the various postings have been made, and the reference columns have been examined to make sure that each item has been posted, the columns on both sides are totalled and the cash and bank columns balanced, as already mentioned in this chapter. The balances are inserted on the Cr. side, and then carried forward to serve as the first debit entries in their respective columns for February.

Petty Cash.

Many small payments, e.g., for tram fares and stamps, are made by a society. Such small payments are usually recorded in a Petty Cash Book, and the total of the petty cash payments is entered as one item in the cash column, Cr. side, in the Cash Book, and posted afterwards to sundry expenses, unless the total and the items are so important as to justify analysis and posting to their appropriate accounts in the Ledger. A cashier, or member of the staff, is usually put in charge of the petty cash, a sum of money being advanced to him from which he makes payments as may be required. When the amount advanced to him is spent, a further sum is advanced to him.

Imprest System of Petty Cash.

In the imprest system of keeping the Petty Cash Account a definite amount is advanced to the cashier in charge of the petty cash, and is known as the "imprest" amount. The exact amount spent during a month is paid to the cashier at the end of the month, so that he always commences a fresh month with the "imprest" amount.

SUMMARY.

The Cash Book is the book in which the receipts and payments of cash are entered day by day as they arise. The entries in the Cash Book form the basis of the Cash Account published in the balance sheet.

The Cash Book may contain three cash columns on each side for discount, cash, and bank items respectively; or, in a business where discount items are not recorded in the Cash Book, the book may contain only two cash

columns on each side—one for cash items and one for bank items. Receipts or payments in cash are entered in the cash columns, and payments into the bank, or by the bank, are entered in the bank columns. The difference between the totals of the cash columns therefore represents the balance of cash in hand; and the difference between the totals of the bank columns represents the bank balance, which may be either a balance in hand at the bank if receipts have exceeded payments, or an overdraft if payments made by the bank have exceeded payments into the bank.

Where discount columns are provided, the discount item is always entered in the Cash Book on the same side as the cash to which it is related. Thus, discount allowed *by* a firm is entered in the discount column on the Dr. side of its Cash Book—where the cash received is entered—for discount is allowed *by* a firm when it receives a payment. Discount allowed *to* a firm is entered on the Cr. side of the Cash Book along with the payment to which it relates.

The principal classes of cash receipts are: (1) share capital contributions, (2) loan capital deposits, (3) savings-bank deposits, (4) interest on share and loan investments, and (5) cash received for goods sold. In most distributive societies, except the smallest, there is a separate book for recording each of these classes of receipt, and only the daily totals of each class is entered in the General Cash Book. In a very small society these subsidiary books may not be required, and the individual items can be entered in the Cash Book in order of occurrence, irrespective of the class to which they belong.

The individual items in the Cash Book on the Dr. side of the Cash Book (cash and discount) are posted to the credit side of the appropriate Ledger Account, thus giving the compensating entry for the debit entries in the Cash Book. The individual entries on the credit side of the Cash Book (discount and cash) are posted to the debit side of the appropriate Ledger Account. When the items in the Cash Book are posted to the Ledger, the reference numbers, indicating the Ledger folios to which the items have been posted, are entered in the reference column of the Cash Book. Where cheques are received, or paid, they may be entered direct in the bank column; but cash is often kept on hand for a little time before being paid into the bank. When cash that has been entered in the cash column in the Cash Book is afterwards paid into the bank, an entry is made in the cash column on the Cr. side, and afterwards in the bank column on the Dr. side. Where cash is withdrawn from the bank an entry must first be made in the bank column on the Cr. side of the Cash Book, and afterwards in the cash column on the Dr. side, for the bank is a creditor for the amount it pays, and the cash department a debtor for what it has received from the bank.

At the end of each month, or other period, the Cash Book is "balanced." The discount columns are totalled—not balanced—and the total of the discounts on the Dr. side is posted to the Dr. side of the Discount Account in the Nominal Ledger, where it appears as an expense, whilst the total of the discounts on the Cr. side is posted to the Cr. side of the Discount Account. In most retail distributive societies, discount on purchases is deducted from the invoice total and the net amount is entered as the amount of the purchase. The balance of cash in the hands of the cashier, and the balance at the bank, are entered in their appropriate columns; both sides of each account are totalled, and the balances of cash in hand and at bank are carried forward to the opposite side of the account to serve as the first entry for the succeeding month or trading period.

Small payments are usually recorded in a Petty Cash Account, the total payments being entered in one item in the Cash Book at the end of each month. The imprest system is often employed for keeping the Petty Cash Account. In this system the petty cashier begins a month with a fixed sum, and at the end of the month is recouped the amount spent during the month, so that he begins each month with the same amount.

QUESTIONS AND EXERCISES.

1. What entries are made in the Cash Book? Into what principal classes may these entries be divided? What are "subsidiary" Cash Books?

2. Enter the following items in a Cash Book and balance the cash and bank columns.

	£
Jan. 1.—Received share capital from Sam Smith	5
,, 2.—Cash for shop takings	30
,, 3.—Paid into bank—cash	25
,, 3.—Shop receipts	35
,, 3.—Paid C.W.S. for goods—cheque	20
,, 4.—Paid into bank—cash	40
,, 4.—Shop receipts	30
,, 4.—Drew from bank and paid for wages	10
,, 5.—Shop receipts	35
,, 5.—Paid L. M. & S. Railway for carriage—cash	2
,, 5.—Paid into bank	30
,, 5.—Paid John Lord, share withdrawal—cash	5

3. What is discount? What kinds of discount are there?

4. Where is discount entered when entered in the Cash Book, and to what Ledger Accounts is it afterwards posted? In what way is discount usually treated in a retail distributive Co-operative Society.

5. Must the debit entries in the cash columns of the Cash Book always exceed the credit entries? Does the same answer apply to the entries in the bank columns? Give reasons for your answers.

6. To which side of the Ledger are the items in the Cash Book posted, and why?

7. Where are the items of bank interest and bank charges entered in the Cash Book? Why are they so entered?

8. Where would the following items be entered in the Cash Book?

(*a*) A cheque received for loan interest.

(*b*) Payment of wages involving a withdrawal of cash from the bank.

(*c*) A payment by postal orders.

(*d*) A payment made by cheque.

(*e*) Shop takings banked by a branch manager and not brought to the office.

(*f*) A cheque book costing 10s.

(*g*) £50 of cash on hand on the morning of January 31st, banked that day.

9. A society had a bank balance of £200 and a cash balance of £50 at the beginning of January. During the month its takings amounted to £1,200, most of which was banked Cheques amounting to £1,100 were issued. Assuming the cash in hand at the end of the month to be £80, find the amount of cash paid into the bank during the month, and the position at the bank at the end of the month. Make out a Cash Account showing the above information.

10. (*a*) What would you expect to be the amount of cash received by you in settlement of an account of £80 from which a trade discount of $12\frac{1}{2}$ per cent was first allowed, and then a cash discount of $2\frac{1}{2}$ per cent? (*b*) If the payment was made by cheque, and you paid away the cheque to a third party after endorsement, what would be the correct entries in the Cash Book?

11. How would the following items be treated in the Cash Book?

(*a*) A cheque from A.B. paid into the bank by you and returned dishonoured.

(*b*) A cheque for £10 cashed for a member.

(*c*) A cheque for £20 received in payment of an account for £19, you giving £1 change in cash.

Show the entries for (*a*), (*b*), and (*c*) in Cash Book form.

12. What are "petty cash" payments? Rule a Petty Cash Book and enter six items.

13. What is the imprest system of Petty Cash Account? Make out such an account, enter ten items for the month, and show the account as at the end of the month.

14. Where is the total amount of petty cash payments entered at the end of the month? How do these payments differ from other cash payments?

CHAPTER XI.

THE TRANSACTIONS OF THE NEWWAY CO-OPERATIVE SOCIETY LIMITED.

(1) ENTERING THE TRANSACTIONS OF THE SOCIETY IN THE BOOKS OF PRIMARY ENTRY.

HAVING now considered the principal books employed in the system of Co-operative Book-keeping that is being explained, we shall probably serve the student's interests best by placing ourselves in the position of a person who is entrusted with the keeping of a society's accounts, and has to enter the day-by-day transactions of the society in the appropriate books. We shall begin with the books of primary entry, post the items from these books to the appropriate Ledger Accounts, make any necessary adjustments of charges, prepare a trial balance, and afterwards make out a balance sheet embodying the transactions in summarised form to satisfy the requirements of a balance sheet. It will meet the needs of our proposal, viz., to illustrate the methods of recording the transactions up to the balance sheet stage, if we enter the transactions for one month of a society that has only one department, and that a distributive department.

Let it be supposed, then, that the following are the transactions of the Newway Co-operative Society Ltd. for the month of January, 1926. We are required to enter these transactions in the primary books of entry (Invoice Analysis Book, Cash Book, etc.), post the items from these primary books to the appropriate Ledger Accounts, then make any necessary adjustments, and afterwards prepare a trial balance and a balance sheet showing the results of the business operations for the month and the position of the society at the end of the month.

In this chapter we shall confine our attention to the entry of the transactions in the books of primary entry.

THE NEWWAY CO-OPERATIVE SOCIETY LIMITED.

TRANSACTIONS FOR THE MONTH OF JANUARY, 1926.

(1) Jan. 1.—Charles Jones, Frank Wood, Robert Ogden, Joseph Palmer, James Hunt, Thomas Pollitt, and Kay Brown, the original members of the society, pay £5 each as share capital and are allotted membership numbers 1 to 7.

(2) ,, 2.—Twenty persons join the society, each paying £2 as share capital. Allotted numbers 8 to 27.

(3) ,, 4.—£75 cash in hand paid into bank.

(4) ,, 4.—Share capital received: Charles Jones, £50; Frank Wood, £60; Robert Ogden, £40.

(5) ,, 4.—Bank debits society's account with £1 for cheque book.

(6) ,, 4.—Thirty new members —28 to 57—join society, paying £2 each as share capital.

(7) ,, 4.—Shop purchased for £200 from John Lord (ground rent, £12 per annum).

(8) ,, 5.—Paid into bank, £180.

(9) ,, 5.—Twenty new members—58 to 77—join society, paying £2 each as share capital.

(10) ,, 5.—Pollitt and Hunt each increase their share capital by £20.

(11) ,, 5.—Invoices received: C.W.S. Ltd., groceries value £80; Smith and Brown, groceries value £40; Green and Black, groceries value £20; Wren and Co., paper and twine value £10.

(12) ,, 6.—Banked £80.

(13) ,, 6.—Paid Wood and Co., by cheque, £10 for new fixtures, as per invoice received this day.

(14) ,, 7.—Shop takings, £20.

(15) ,, 8.—Ten new members—78 to 87—join society, paying £2 each as share capital.

(16) ,, 8.—Shop takings, £25; banked £30.

(17) ,, 8.—Paid John Lord's account, by cheque, £200.

(18) ,, 11.—Invoice received from C.W.S. Ltd. for groceries value £100.

(19) ,, 11.—Shop takings, £20; banked £40.

(20) ,, 11.—Paid accounts by cheque: C.W.S. Ltd., £80; Smith and Brown, £40; Green and Black, £20; Wren and Co., £10.

(21) ,, 12.—Shop takings, £25; banked £20.

(22) ,, 13.—Paid shopman's wages, £4 in cash.

(23) ,, 13.—Shop takings, £20; banked £20.

(24) ,, 13.—Invoices received for groceries: C.W.S. Ltd., £100; Smith and Brown, £20.

(25) ,, 13.—Paid Brush and Co., £20 (cheque) for painting shop, as per invoice received this day.

(26) ,, 14.—Ten new members—88 to 97—join society, each paying £2 as share capital.

(27) ,, 14.—Charles Jones pays in £100 as share capital.

(28) ,, 14.—Shop takings, £25; banked £140.

(29) ,, 14.—Society invests £100 (cheque) with C.W.S. Ltd. as share capital.

(30) ,, 15.—Shop takings, £30; banked £25.

(31) ,, 15.—Paid C.W.S. Ltd., by cheque, £100 for goods bought 11th inst.

(32) ,, 16.—Shop takings, £35; banked £30.

Item.

(33) Jan. 16.—Received account from C.W.S. Ltd. for books and stationery, £10.

(34) ,, 18.—Shop takings, £25; banked £30.

(35) ,, 19.—Frank Wood withdraws share capital, £5 (cash).

(36) ,, 19.—Shop takings, £30; banked £25.

(37) ,, 20.—Paid shopman's wages, £4 (cash).

(38) ,, 20.—Shop takings, £30; banked £30.

(39) ,, 20.—Paid cheques: C.W.S. Ltd., £100; Smith and Brown, £20.

(40) ,, 21.—Bought from C.W.S. Ltd., groceries value £110.

(41) ,, 21.—Shop takings, £25; banked £30.

(42) ,, 22.—Ten new members—98 to 107—join society, each paying £2 as share capital.

(43) ,, 22.—Shop takings, £25; banked £25.

(44) ,, 23.—Shop takings, £20; banked £40.

(45) ,, 25.—Bought from Smith and Brown, groceries value £20.

(46) ,, 25.—Shop takings, £20; banked £20.

(47) ,, 26.—Paid C.W.S. Ltd., by cheque, £120 for goods bought 21st and books bought 16th inst.

(48) ,, 26.—Shop takings, £25; banked £20.

(49) ,, 27.—Paid wages to shopman, £5 (cash).

(50) ,, 27.—Shop takings, £30; banked £25.

(51) ,, 28.—Paid A. Smith's account, received to-day, for delivering goods to members, £5 (cash).

(52) ,, 28.—Paid L. M. and S. Railway account, received to-day, for inward carriage, £2 (cash).

(53) ,, 28.—Shop takings, £30; banked £25.

(54) ,, 28.—Paid Co-operative Insurance Society, by cheque, £3 for insurance premium (stock, £1; buildings, £2).

(55) ,, 29.—Bought groceries from C.W.S. Ltd., £120.

(56) ,, 29.—Shop takings, £40; banked £30.

(57) ,, 30.—Shop takings, £30; banked £40.

(58) ,, 30.—Paid secretary for services during month, £8 (cash).

(59) ,, 30.—Paid Corporation for electric light for month, £2 (cheque).

(60) ,, 30.—Paid Post Office for telephone charges for shop, for month, £1 (cheque).

Prepare from the foregoing items the Invoice Analysis Book, Cash Book, the various Ledger Accounts, trial balance, and balance sheet, first providing for the following:—

(*a*) Interest on members' share capital, estimated at £2.

(*b*) Interest on shares in C.W.S. Ltd., estimated at £1.

(*c*) Ground rent for month, £1.

(*d*) Depreciation on shop and fixtures, taken as £1 per month.

(*e*) Interest chargeable on buildings for month, £1.

(*f*) Interest chargeable on stock for month, £1.

(*g*) Shop wages due, £5.

(*h*) Stock on hand at end of month, estimated at £200.

The Books of Primary Entry required.

We may now proceed to enter the foregoing items in the books of primary entry. As mentioned in previous chapters, these books are:—

(1) The Cash Book, for recording cash received and paid.

(2) The Purchases Book (or Invoice Analysis Book), for recording purchases and other expenditure.

(3) The Sales Book, for recording sales.

These books meet the need as books of primary entry, for, as mentioned in Chapter VI., all business transactions are either (1) money received or paid; or (2) goods bought or sold. It is not necessary to keep a Sales Book in a retail distributive society with only one department and selling only for cash. The cash received for goods sold gives the value of sales; and the Sales (Day) Book is therefore dispensed with in such a society.

There are, however, certain internal transfers and adjustments which do not fall into the categories previously mentioned; and these transfers and adjustments can be most suitably entered in the Journal as the book of primary entry. We shall therefore direct our attention to the Cash Book, the Invoice Analysis Book, and the Journal, in some one or more of which all the entries relating to the society's transactions for January must first be made.

Entries in the Cash Book.

We will take the items for the Cash Book first, and refer to them by the numbers which have been given them for reference purposes in the list of transactions.

Item.

(1) Jan. 1.—This is a case of cash received on account of share capital. The Cash Account will be debited with the £5 received from each of the seven original members.

(2) ,, 2.—A debit to the Cash Account of £40 for cash received. A separate entry for each shareholder is required for the proper recording of these receipts, but to save time and space one entry only of the total is made in this exercise. In most societies a Shares Contribution Book would be kept, and each shareholder's payment would be entered separately in it, the total received each day on account of share capital being entered as one item in the Cash Book.

(3) ,, 4.—As the cash department has paid £75 into the bank, the Cash Account must be credited by an entry of £75 in the cash column on the credit side, and the Bank Account must be debited by an entry in the bank column on the debit side of the Cash Book.

Item.

(4) Jan. 4.—As for No. 1.

(5) ,, 4.—The bank having provided the society with a cheque book containing stamped cheques of the value of £1, the bank must be credited with this amount by an entry in the bank column on the credit side.

(6) ,, 4.—As for No. 2.

(7) ,, 4.—No receipt or payment of money, therefore no entry in Cash Book.

(8) ,, 5.—As for No. 3.

(9) ,, 5.—As for No. 2.

(10) ,, 5.—As for No. 1.

(11) ,, 5.—No receipt or payment of money, therefore no entry in Cash Book.

(12) ,, 6.—As for No. 3.

(13) ,, 6.—As a payment is made by cheque, the bank must be credited by an entry of £10 in the bank column on the credit side.

(14) ,, 7.—This is clearly a case of cash receipts, and the Cash Account must be debited by an entry in the cash column on the Dr. side.

(15) ,, 8.—As for No. 2.

(16) ,, 8.—Shop takings, as for No. 2—debit the Cash Account; the amount of cash banked is entered as before (No. 3).

(17) ,, 8.—As for No. 13.

(18) ,, 11.—No cash received or paid, therefore no entry in Cash Book.

(19) ,, 11.—As for No. 16.

(20) ,, 11.—As for No. 13.

(21) ,, 12.—As for No. 16.

(22) ,, 13.—This being a payment in cash, the Cash Account must be credited by an entry in the cash column on the Cr. side.

(23) ,, 13.—As for No. 16.

(24) ,, 13.—No cash received or paid, therefore no entry in Cash Book.

(25) ,, 13.—As for No. 13.

(26) ,, 14.—As for No. 2.

(27) ,, 14.—As for No. 1.

(28) ,, 14.—As for No. 16.

(29) ,, 14.—As the society pays £100 by cheque, the bank must be credited by an entry in the bank column on the Cr. side.

(30) ,, 15.—As for No. 16.

(31) ,, 15.—As for No. 13.

(32) ,, 16.—As for No. 16.

(33) ,, 16.—No cash received or paid.

(34) ,, 18.—As for No. 16.

(35) ,, 19.—As cash is paid out, the Cash Account must be credited by an entry in the cash column on the Cr. side.

(36) ,, 19.—As for No. 16.

(37) ,, 20.—As for No. 22.

(38) ,, 20.—As for No. 16.

(39) ,, 20.—As for No. 13.

(40) ,, 21.—No cash received or paid.

Item.

(41) Jan. 21.—As for No. 16.
(42) ,, 22.—As for No. 2.
(43) ,, 22.—As for No. 16.
(44) ,, 23.—As for No. 16.
(45) ,, 25.—No cash received or paid.
(46) ,, 25.—As for No. 16.
(47) ,, 26.—As for No. 13.
(48) ,, 26.—As for No. 16.
(49) ,, 27.—As for No. 22.
(50) ,, 27.—As for No. 16.
(51) ,, 28.—As an account was paid in cash, the Cash Account must be credited by an entry in the cash column on the Cr. side.
(52) ,, 28.—As for No. 51.
(53) ,, 28.—As for No. 16.
(54) ,, 28.—As for No. 13.
(55) ,, 28.—No cash received or paid.
(56) ,, 28.—As for No. 16.
(57) ,, 30.—As for No. 16.
(58) ,, 30.—As for No. 22.
(59) ,, 30.—As for No. 13.
(60) ,, 30.—As for No. 13.

The entries in the Cash Book having been made in accordance with the suggestions given above, and the Cash and Bank Accounts having been totalled and balanced, the Cash Book for January should appear as shown on pages 112 and 113; the balance of cash in hand at the end of the month amounting to £42, and the cash at bank amounting to £153.

[The student is advised to enter up the Cash Book himself from the transactions of the society as given on pages 107 and 108, after reading the above explanation, and if he is in difficulty, or if his results do not agree with the Cash Book shown on pages 112 and 113, he can refer again to the explanation given above.]

Dr. CASH BOOK.

Date.	Led. Fol.		Rec. No.	Cash. £ s. d.	Bank. £ s. d.
Jan. 1	S. L. 1	To Charles Jones (Share Capital)	...	5 0 0	.....
,, 1	,, 2	,, Frank Wood (Share Capital)	...	5 0 0	.....
,, 1	,, 3	,, Robert Ogden (Share Capital)	...	5 0 0	.....
,, 1	,, 4	,, Joseph Palmer (Share Capital)	...	5 0 0	.....
,, 1	,, 5	,, James Hunt (Share Capital)	...	5 0 0	.....
,, 1	,, 6	,, Thomas Pollitt (Share Capital)	...	5 0 0	.....
,, 1	,, 7	,, Kay Brown (Share Capital)	...	5 0 0	.....
,, 2	,, 8/27	,, Members, 8 to 27 (Share Capital)	...	40 0 0	.....
,, 4	C/–	,, Cash	...	.....	75 0 0
,, 4	S. L. 1	,, Charles Jones (Share Capital)	...	50 0 0	.....
,, 4	,, 2	,, Frank Wood (Share Capital)	...	60 0 0	.....
,, 4	,, 3	,, Robert Ogden (Share Capital)	...	40 0 0	.....
,, 4	,, 28/57	,, Members, 28 to 57 (Share Capital)	...	60 0 0	.....
,, 5	C/–	,, Cash	...	.....	180 0 0
,, 5	S. L. 58/77	,, Members, 58 to 77 (Share Capital)	...	40 0 0	.....
,, 5	,, 6	,, Thomas Pollitt (Share Capital)	...	20 0 0	.....
,, 5	,, 5	,, James Hunt (Share Capital)	...	20 0 0	.....
,, 6	C/–	,, Cash	...	.....	80 0 0
,, 7	Imp. L. 1	,, Shop Takings	...	20 0 0	.....
,, 8	S. L. 78/87	,, Members, 78 to 87 (Share Capital)	...	20 0 0	.....
,, 8	C/–	,, Cash	...	.....	30 0 0
,, 8	Imp. L. 1	,, Shop Takings	...	25 0 0	.....
,, 11	,, 1	,, Shop Takings	...	20 0 0	.....
,, 11	C/–	,, Cash	...	.....	40 0 0
,, 12	C/–	,, Cash	...	.....	20 0 0
,, 12	Imp. L. 1	,, Shop Takings	...	25 0 0	.....
,, 13	,, 1	,, Shop Takings	...	20 0 0	.....
,, 13	C/–	,, Cash	...	.....	20 0 0
,, 14	S. L. 88/97	,, Members, 88 to 97 (Share Capital)	...	20 0 0	.....
,, 14	,, 1	,, Charles Jones (Share Capital)	...	100 0 0	.....
,, 14	Imp. L. 1	,, Shop Takings	...	25 0 0	.....
,, 14	C/–	,, Cash	...	.....	140 0 0
,, 15	Imp. L. 1	,, Shop Takings	...	30 0 0	.....
,, 15	C/–	,, Cash	...	.....	25 0 0
,, 16	Imp. L. 1	,, Shop Takings	...	35 0 0	.....
,, 16	C/–	,, Cash	...	.....	30 0 0
,, 18	Imp. L. 1	,, Shop Takings	...	25 0 0	.....
,, 18	C/–	,, Cash	...	.....	30 0 0
,, 19	Imp. L. 1	,, Shop Takings	...	30 0 0	.....
,, 19	C/–	,, Cash	...	.....	25 0 0
,, 20	Imp. L. 1	,, Shop Takings	...	30 0 0	.....
,, 20	C/–	,, Cash	...	.....	30 0 0
,, 21	Imp. L. 1	,, Shop Takings	...	25 0 0	.....
,, 21	C/–	,, Cash	...	.....	30 0 0
,, 22	S.L. 98/107	,, Members, 98 to 107 (Share Capital)	...	20 0 0	.....
,, 22	Imp. L. 1	,, Shop Takings	...	25 0 0	.....
,, 22	C/–	,, Cash	...	.....	25 0 0
,, 23	Imp. L. 1	,, Shop Takings	...	20 0 0	.....
,, 23	C/–	,, Cash	...	.....	40 0 0
,, 25	Imp. L. 1	,, Shop Takings	...	20 0 0	.....
,, 25	C/–	,, Cash	...	.....	20 0 0
,, 26	Imp. L. 1	,, Shop Takings	...	25 0 0	.....
,, 26	C/–	,, Cash	...	.....	20 0 0
,, 27	Imp. L. 1	,, Shop Takings	...	30 0 0	.....
,, 27	C/–	,, Cash	...	.....	25 0 0
,, 28	Imp. L. 1	,, Shop Takings	...	30 0 0	.....
,, 28	C/–	,, Cash	...	.....	25 0 0
,, 29	Imp. L. 1	,, Shop Takings	...	40 0 0	.....
,, 29	C/–	,, Cash	...	.....	30 0 0
,, 30	Imp. L. 1	,, Shop Takings	...	30 0 0	.....
,, 30	C/–	,, Cash	...	.....	40 0 0
				£1055 0 0	£980 0 0
Jan. 30	.....	To Balance of Cash in hand and at Bank...	...	42 0 0	153 0 0

JANUARY, 1926. *Cr.*

Date.	Led. Fol.		Rec. No.	Cash. £ s. d.	Bank. £ s. d.
Jan. 4	C/–	By Bank	...	75 0 0	.....
„ 4	I. A. B. 5	„ Cheque Book	...	.....	1 0 0
„ 5	C/–	„ Bank	...	180 0 0	.....
„ 6	C/–	„ Bank	...	80 0 0	.....
„ 6	6	„ Wood and Co.	...	.....	10 0 0
„ 8	C/–	„ Bank	...	30 0 0	.....
„ 8	1	„ John Lord	...	.....	200 0 0
„ 11	C/–	„ Bank	...	40 0 0	.....
„ 11	2	„ C.W.S. Ltd.	...	.....	80 0 0
„ 11	3	„ Smith and Brown	...	.....	40 0 0
„ 11	4	„ Green and Black	...	.....	20 0 0
„ 11	5	„ Wren and Co.	...	.....	10 0 0
„ 12	C/–	„ Bank	...	20 0 0	.....
„ 13	13	„ Shop Wages	...	4 0 0	.....
„ 13	C/–	„ Bank	...	20 0 0	.....
„ 13	7	„ Brush and Co.	...	.....	20 0 0
„ 14	C/–	„ Bank	...	140 0 0	.....
„ 14	Inv. L. 1	„ C.W.S. Ltd. (Share Investment)	...	.....	100 0 0
„ 15	C/–	„ Bank	...	25 0 0	.....
„ 15	2	„ C.W.S. Ltd.	...	.....	100 0 0
„ 16	C/–	„ Bank	...	30 0 0	.....
„ 18	C/–	„ Bank	...	30 0 0	.....
„ 19	S. L. 2	„ Frank Wood (Share Capital)	...	5 0 0	.....
„ 19	C/–	„ Bank	...	25 0 0	.....
„ 20	13	„ Shop Wages	...	4 0 0	.....
„ 20	C/–	„ Bank	...	30 0 0	.....
„ 20	2	„ C.W.S. Ltd.	...	.....	100 0 0
„ 20	3	„ Smith and Brown	...	.....	20 0 0
„ 21	C/–	„ Bank	...	30 0 0	.....
„ 22	C/–	„ Bank	...	25 0 0	.....
„ 23	C/–	„ Bank	...	40 0 0	.....
„ 25	C/–	„ Bank	...	20 0 0	.....
„ 26	2	„ C.W.S. Ltd.	...	.....	120 0 0
„ 26	C/–	„ Bank	...	20 0 0	.....
„ 27	13	„ Shop Wages	...	5 0 0	.....
„ 27	C/–	„ Bank	...	25 0 0	.....
„ 28	8	„ A. Smith	...	5 0 0	.....
„ 28	9	„ L. M. & S. Railway	...	2 0 0	.....
„ 28	C/–	„ Bank	...	25 0 0	.....
„ 28	10	„ Co-operative Insurance Society	...	.....	3 0 0
„ 29	C/–	„ Bank	...	30 0 0	.....
„ 30	C/–	„ Bank	...	40 0 0	.....
„ 30	13	„ Secretary (Salary)	...	8 0 0	.....
„ 30	11	„ Corporation	...	.....	2 0 0
„ 30	12	„ Post Office	...	.....	1 0 0
„ 30	...	„ Balance of Cash in hand	...	42 0 0	.....
„ 30	...	„ Balance of Cash at Bank	...	.....	153 0 0
				£1055 0 0	£980 0 0

The Invoice Analysis Book.

We may now enter in the Invoice Analysis Book the January transactions which require to be entered in that book. These are items 7, 11, 13, 18, 22, 24, 25, 33, 37, 40, 45, 49, 51, 52, 54, 55, 58, 59, and 60. They are all items of expenditure, and they require to be classified according to function under the headings explained in Chapter VIII. They will be entered in the Analysis Book as follows: The invoices will be numbered from one upwards in the order in which they are received, and this number, with the Personal Ledger folio reference, the date of the invoice, the name of the invoicer, the nature of the expense, and the total of the invoice will be entered in each case in the appropriate column. The further entries can be best explained by examining the items in turn, and by reference to the numbers that have been given them in the list of transactions.

Item.

(7) Jan. 4.—This being the purchase of a shop, the expenditure is capital expenditure, and the £200 will be entered in the Capital Expenditure column.

(11) ,, 5.—These items being purchases of goods, the amount of the purchases is in each case entered in the Goods column.

(13) ,, 6.—New fixtures represent capital expenditure, not revenue expenditure, and the £10 is therefore entered in the Capital Expenditure column.

(18) ,, 11.—This item being a purchase of goods is treated in the same way as item 11.

(22) ,, 13.—Wages of shopmen are a selling expense (see list of selling expenses given on page 77), and the £4 must therefore be entered in the Selling Expenses column.

(24) ,, 13.—As for item 11.

(25) ,, 13.—This item is a Land, Buildings, and Fixtures charge (see list of charges included under this heading given on page 77). It is a charge associated with the provision and maintenance of shop accommodation, hence its inclusion in this group. The amount of the invoice (£20) is therefore entered in the column headed "Land, Buildings, and Fixtures Charges."

(33) ,, 16.—Books and stationery are an office expense, which is a general charge that would be spread over the various branches and departments in a large society. In the small society with which we are at present concerned the same principle is followed, and the item of £10 is treated as a general charge to be entered as a Trading Account charge in the column headed "General Charges."

Item.

(37) Jan. 20.—As for item 22.

(40) " ,, 21.—As for item 11.

(45) ,, 25.—As for item 11.

(49) ,, 27.—As for item 22.

(51) ,, 28.—This is a charge for delivering goods to members, and is therefore entered in the Delivery Expenses column.

(52) ,, 28.—This is a charge for carriage of goods inwards, and such charges are treated as an addition to the cost of goods. For this reason, the item £2 is entered in the Goods column of the Trading Account charges.

(54) ,, 28.—This item of £3 has to be dissected. £1 of it is insurance of stocks, and, in accordance with the list given on page 77, it is entered as a Trading Account charge in the column headed " Goods and Stock Charges." £2 of the item is for insurance of buildings, and is entered in the Land, Buildings, and Fixtures Charges column, according to the classification set forth on page 77.

(55) ,, 29.—As for item 11.

(58) ,, 30.—The secretary's salary is an office expense, and therefore a general charge, for which reason it is entered in the General Charges column.

(59) ,, 30.—As per the list given on page 77, this is a Land, Buildings, and Fixtures charge (in the Trading Account) and is entered in the column devoted to these charges.

(60) ,, 30.—Telephone charges (shop telephone) are a selling expense, as noted on page 77, and the item of £1 is therefore entered in the Selling Expenses column of the Trading Account charges. (Office telephone charges would be a general charge).

There is still one item to be added—the £1 for the cheque book. At the end of the trading period, all bank charges must be ascertained from the Cash Book and entered in the Invoice Analysis Book as a general charge in the Trading Account. Hence this £1 is entered in the column headed " General Charges."

This completes the entry of the invoices in the Invoice Analysis Book, and the various columns may now be totalled. The total of the column in which the total of each invoice is entered should agree with the total of the totals of the remaining columns.

There are, however, some adjustments to be made in accordance with the information given at the foot of the list of transactions. Some of these items will require to be entered in the Invoice Analysis Book before the final totals for the month are ascertainable, and we may therefore proceed to deal with them at once in order to complete the entries in the Invoice Analysis Book. The most

suitable starting point for these adjustments is the Journal, and we shall now deal with the entry of the adjustments in the Journal, and thence to their appropriate accounts.

Adjustments and the Journal Entries for same.

At the end of any trading period there are usually some items of expense for which no invoice has been received, or some charge, e.g., local rates, which does not fall due for payment until some future date, though the portion of the total charge which rightly belongs to any period has to be included in the accounts for that period. Or it may happen that some charges have been paid in advance, e.g., rates may be paid in the middle of the year for the whole year, or insurance may have been paid in advance for the whole year. The correct proportion of the charge in these and similar cases has to be charged against each trading period, and the name " adjustments " is given to the series of debits and credits that has to be made for the purpose of allocating the right charge to each trading period. The Journal is the most convenient starting point for them, and will be used here. Let us follow the adjustments given in the exercises:—

(*a*) Share interest due to members may not be added to the members' accounts until the end of the quarter, but if the exact position of the society is to be ascertained, provision must be made for the amount due up to the end of January—the date at which we are to make out the balance sheet. The charge is evidently a debit against the business, and eventually will be a credit to the members' accounts; but as it is only an estimated amount, it is better not to credit it direct to the members but to a special account, which we may name " Share Interest due to Members." The debit entry is to go in the Investments Revenue Account, as per the list on page 75. The correct Journal entries will therefore be:—

INTEREST ON MEMBERS' SHARES.

	£ s. d.	£ s. d.
Investments Revenue Account (share interest) .....*Dr.*	2 0 0	
Share interest due to members (Share Account) .....*Cr.*		2 0 0

(*b*) It is estimated (the amount has been fixed in this case to serve as an illustration, not for its mathematical accuracy) that £1 interest has been earned during the period by the investment of £100 in shares in the C.W.S., and the accounts of the period must take it into account. We shall not debit the C.W.S., since the C.W.S.

is not a debtor until the date arrives when the amount is to be paid, but we shall debit, instead, an account which we shall open for " Interest Accrued," and we shall credit the amount to the Interest Receivable Account, which will eventually be closed by a transfer to the Investments Revenue Account, where all earnings in the form of interest are credited. The entries will therefore be:—

INTEREST ON SHARE INVESTMENT IN C.W.S.

	£	s.	d.	£	s.	d.
Accrued Interest Account (C.W.S. interest) *Dr.*	1	0	0			
Interest Receivable Account.....*Cr.*				1	0	0

(*c*) £1 is the proportion of ground rent due. The ground landlord will not forward his account until the end of the half year, but the proportion for the month must be debited to the accounts for the month. It is obviously a Land, Buildings, and Fixtures charge for the Trading Account, and this account must be debited and " accounts owing " must be credited as follows:—

GROUND RENT DUE.

	£	s.	d.	£	s.	d.
Land, Buildings, and Fixtures Charges.....*Dr.*	1	0	0			
Accounts owing .....*Cr.*				1	0	0

(*d*) The shop and fixtures have been in use a month, and it is estimated that a reasonable allowance for depreciation for the month will be £1. Depreciation is a Land, Buildings, and Fixtures charge, and the account must be credited, and the Shop and Fixtures Account credited, to reduce the original value by the amount of the depreciation. The correct entries will be:—

DEPRECIATION CHARGES ON SHOP AND FIXTURES.

	£	s.	d.	£	s.	d.
Land, Buildings, and Fixtures Charges.....*Dr.*	1	0	0			
Shop and Fixtures Account .....*Cr.*				1	0	0

(*e*) In lieu of a rent, the Trading Account has to be charged with interest, depreciation, and insurance upon the value of the shop. Insurance has already been charged (see item 54, page 115), and depreciation has been charged in item (*d*). We have now to charge the interest —also to the Land, Buildings, and Fixtures Charges Account. The Interest Receivable Account is credited with the amount so charged, and the amount, with others, will eventually be transferred to the Investments Revenue Account, for the Investments Revenue Account collects all the items of interest payable by the society, and all the interest that is charged to the trading and other departments, or is earned in outside investments. The correct entries are therefore:—

INTEREST CHARGES FOR LAND, BUILDINGS, AND FIXTURES.

	£	s.	d.	£	s.	d.
Land, Buildings, and Fixtures Charges ....*Dr.*	1	0	0			
Interest Receivable Account.....*Cr.*				1	0	0

(*f*) Interest is charged to the Trading Account for the amount of capital employed in the form of stocks. This interest is estimated at £1, which is a debit to the goods and stocks charges (as explained in the list on page 77), whilst the Interest Receivable Account is credited for the reasons mentioned when explaining item (*e*). The correct entries are:—

INTEREST CHARGES FOR STOCKS.

		£	s.	d.	£	s.	d.
Goods and Stock Charges	*Dr.*	1	0	0			
Interest Receivable Account	*Cr.*				1	0	0

(*g*) £5 wages are due to the shopman but not paid. They must be charged to the accounts for the period, and the amount must be added to the sum of accounts owing. The correct entries are:—

SHOP WAGES DUE.

		£	s.	d.	£	s.	d.
Selling Expenses	*Dr.*	5	0	0			
Accounts Owing	*Cr.*				5	0	0

(*h*) Stock on hand, £200. This information will be required when making up the balance sheet. It will have to be entered on the Cr. side of the Trading Account, and on the assets side (a Dr. entry) of the Statement of Assets and Liabilities. This item will be referred to in Chapter XIII., on the making up of the balance sheet.

Having journalised the items in accordance with the foregoing explanations, the Journal should read as follows:—

JOURNAL, JANUARY, 1926.

ADJUSTMENTS.

Item.			£	s.	d.	£	s.	d.
(1)	Jan. 30.—Investments Revenue Account (share interest)	*Dr.*	2	0	0			
(2)	Share interest due to members	*Cr.*				2	0	0
(3)	,, 30.—Accrued Interest Account (C.W.S. share interest)	*Dr.*	1	0	0			
(4)	Interest Receivable Account	*Cr.*				1	0	0
(5)	,, 30.—Land, Buildings, & Fixtures Charges (for ground rent)	*Dr.*	1	0	0			
(6)	Accounts owing	*Cr.*				1	0	0
(7)	,, 30.—Land, Buildings, & Fixtures Charges (for depreciation)	*Dr.*	1	0	0			
(8)	Shop and Fixtures Account	*Cr.*				1	0	0
(9)	,, 30.—Land, Buildings, & Fixtures Charges (for interest)	*Dr.*	1	0	0			
(10)	Interest Receivable Account	*Cr.*				1	0	0
(11)	,, 30.—Goods and Stock Charges (for interest)	*Dr.*	1	0	0			
(12)	Interest Receivable Account	*Cr.*				1	0	0
(13)	,, 30.—Selling Expenses (for wages due)	*Dr.*	5	0	0			
(14)	Accounts owing	*Cr.*				5	0	0

The Invoice Analysis Book completed.

Some of the foregoing items—but not all—have to be entered in the Invoice Analysis Book. Those which have to be entered in that book are those representing expenses, viz., items numbered 1, 5, 7, 9, 11, and 13 in the Journal, and these items we may now consider.

No. 1 is a debit to the Investments Revenue Account (see list of items for this account given on page 75), and will be entered in the Investments Revenue Charges column of the Invoice Analysis Book. Nos. 5, 7, and 9 are all Land, Buildings, and Fixtures charges, and will be entered in the column bearing this heading in the Invoice Analysis Book. No. 11 is a Goods and Stock charge, and will be entered in the Goods and Stock Charges column; whilst item 13 is clearly a selling expense to be entered in the Selling Expenses column. The remaining items in the Journal do not relate to the Invoice Analysis Book; they are to be entered direct into the Ledgers, and they will be considered in the next chapter.

With the inclusion of the items posted from the Journal, the entries in the Invoice Analysis Book are completed, and the columns may be finally totalled. The book should then appear as follows:—

INVOICE ANALYSIS BOOK.

Invoice No.	Personal Ledger Folio.	Date.	Name.	Nature of Expenditure.	Impersonal Ledger Folio.	Total. £	s.	d.
1	1	Jan. 4	John Lord	New Shop	...	200	0	0
2	2	,, 5	C.W.S. Ltd.	Goods	...	80	0	0
3	3	,, 5	Smith and Brown	,,	...	40	0	0
4	4	,, 5	Green and Black	,,	...	20	0	0
5	5	,, 5	Wren and Co.	,,	...	10	0	0
6	6	,, 6	Wood and Co.	New Fixtures	...	10	0	0
7	2	,, 11	C.W.S. Ltd.	Goods	...	100	0	0
8	13	,, 13	Staff	Shop Wages	...	4	0	0
9	2	,, 13	C.W.S. Ltd.	Goods	...	100	0	0
10	3	,, 13	Smith and Brown	,,	...	20	0	0
11	7	,, 13	Brush and Co.	Painting	...	20	0	0
12	2	,, 16	C.W.S. Ltd.	Stationery	...	10	0	0
13	13	,, 20	Staff	Shop Wages	...	4	0	0
14	2	,, 21	C.W.S. Ltd.	Goods	...	110	0	0
15	3	,, 25	Smith and Brown	,,	...	20	0	0
16	13	,, 27	Staff	Shop Wages	...	5	0	0
17	8	,, 28	A. Smith	Carriage	...	5	0	0
18	9	,, 28	L. M. & S. Railway	,,	...	2	0	0
19	10	,, 28	Co-op. Insurance Society	Insurance	...	3	0	0
20	2	,, 29	C.W.S. Ltd.	Goods	...	120	0	0
21	13	,, 30	Staff	Office Wages	...	8	0	0
22	11	,, 30	Corporation	Electricity	...	2	0	0
23	12	,, 30	Post Office	Telephone Charges	...	1	0	0
24	C. B. 1	,, 30	Bank	Expenses for month	...	1	0	0
						895	0	0
...	J 1	,, 30	Expenses Adjustment A/c	Share Interest	...	2	0	0
...	J 1	,, 30	,, ,,	Ground Rent	...	1	0	0
...	J 1	,, 30	,, ,,	Depreciation	...	1	0	0
...	J 1	,, 30	,, ,,	Int. on Land, B., & F.	...	1	0	0
...	J 1	,, 30	,, ,,	Interest on Stock	...	1	0	0
...	J 1	,, 30	,, ,,	Shop Wages	...	5	0	0
						906	0	0

JANUARY, 1926.

Trading Account Charges.						Investments Revenue Account Charges.	Final Revenue Account Charges.	Capital Expenditure.
Goods.	Goods and Stock Charges.	Selling Expenses	Delivery Expenses	Land, Buildings, and Fixtures Charges.	General Charges.			
£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
.....	.....	.....	.....	.....	.....	.....	.....	200 0 0
80 0 0	.....	.....	.....	.....	.....	.....	.....	.....
40 0 0	.....	.....	.....	.....	.....	.....	.....	.....
20 0 0	.....	.....	.....	.....	.....	.....	.....	.....
10 0 0	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	10 0 0
100 0 0	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	4 0 0	.....	.....	.....	.....	.....	.....
100 0 0	.....	.....	.....	.....	.....	.....	.....	.....
20 0 0	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	20 0 0	.....	.....	.....	.....
.....	.....	.....	.....	.....	10 0 0	.....	.....	.....
.....	.....	4 0 0	.....	.....	.....	.....	.....	.....
110 0 0	.....	.....	.....	.....	.....	.....	.....	.....
20 0 0	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	5 0 0	.....	.....	.....	.....	.....	.....
.....	.....	.....	5 0 0	.....	.....	.....	.....	.....
2 0 0	.....	.....	.....	.....	.....	.....	.....	.....
.....	1 0 0	.....	.....	2 0 0	.....	.....	.....	.....
120 0 0	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	8 0 0	.....	.....	.....
.....	.....	.....	.....	2 0 0	.....	.....	.....	.....
.....	.....	1 0 0	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	1 0 0	.....	.....	.....
622 0 0	1 0 0	14 0 0	5 0 0	24 0 0	19 0 0	.....	.....	210 0 0
.....	.....	.....	.....	.....	.....	2 0 0	.....	.....
.....	.....	.....	.....	1 0 0	.....	.....	.....	.....
.....	.....	.....	.....	1 0 0	.....	.....	.....	.....
.....	.....	.....	.....	1 0 0	.....	.....	.....	.....
.....	1 0 0	.....	.....	.....	.....	.....	.....	.....
.....	.....	5 0 0	.....	.....	.....	.....	.....	.....
622 0 0	2 0 0	19 0 0	5 0 0	27 0 0	19 0 0	2 0 0	.....	210 0 0
Imp. L. 2	Imp. L. 3	Imp. L. 4	Imp. L. 5	Imp. L. 6	Imp. L. 7	Imp. L. 8		Imp. L. 10

With the completion of the explanation of the entry of the items for January in the books of primary entry, this chapter can conveniently be brought to a close. The posting of the items to the Ledgers from the various books of primary entry will be explained in the next chapter, and when the Ledger entries have been explained we may proceed to the compilation of the trial balance and balance sheet.

SUMMARY.

In order to relate the various sections of the accounts that have been explained, it is desirable to record the day-by-day transactions of a society for a period, and, beginning with the books of primary entry, to enter these transactions in all necessary books up to the balance sheet stage, and then prepare a trial balance and balance sheet. The transactions of the Newway Co-operative Society Ltd. for the month of January, 1926, are therefore recorded in the books of primary entry, i.e., Cash Book, Invoice Analysis Book, and Journal. As the society has only one department—a distributive department—and all trade is for cash, a Sales Book is not required.

The Cash Book is provided with two columns on each side—one column for cash and one for bank items, and is entered up in the manner explained in a previous chapter. It is assumed that a discount column is not required.

The Invoice Analysis Book is provided with nine columns for recording the expenditure according to function, and one for the total of each invoice. Other columns provided are for recording invoice number, ledger references, name of invoicer, date of invoice, and nature of expenditure. Six of the columns for recording the classified expenditure are for Trading Account items classified as Goods; Goods and Stock Charges; Selling Expenses; Delivery Expenses; Land, Buildings, and Fixtures Charges; and General Charges; one column is for Investments Revenue Account charges; one is for Final Revenue Account charges; and one is for Capital Expenditure.

Certain adjustments have to be made at the end of the trading period. Some charges have been incurred for which no invoice will be received until some future recognised date, e.g., a charge for ground rent; and some other charges are not recognised as due until a future date, e.g., share interest; but the liability for these and other charges for the period covered by the balance sheet must be allowed for in the accounts. Conversely, some income has been gained by the society during the period but will not be due for recognition by creditors until some future date, e.g., interest on investments; but the portion earned during the period must be allowed for in the accounts. There are also some internal charges to be made, e.g., interest on the capital used by the trading department, and depreciation on the buildings, etc. These various adjustments are first entered in the Journal, and those relating to the accounts, for which columns are provided in the Invoice Analysis Book, are posted from the Journal to that book, and the others are posted direct to the Ledger.

QUESTIONS AND EXERCISES.

1. What are the books of primary entry? What classes of entry are recorded in each of them?

2. Where should the primary entries for the following items be made?—
   A receipt of £20 for share capital.
   An invoice for goods value £25.
   A cheque for £30 received and paid into the bank.
   A withdrawal of £50 from the bank, the £50 being spent upon goods.
   A purchase of a bacon-slicing machine.
   An item of £30 for a quarter's interest upon members' share capital.

3. Rule a page of an Invoice Analysis Book, and enter the following items:—

Jan. 1.—Purchase of goods from C.W.S. Ltd., £100.
,, 2.—Purchase of new machinery from Wheel and Axle Ltd., £200.
,, 2.—Wages for week: shopman, £4; secretary, £5.
,, 3.—£2 carriage inwards of a consignment of goods.
,, 4.—Invoice for carriage of goods to members, £2.
,, 5.—Licences for shop, £2.
,, 6.—Painting shop, £10.
,, 6.—Repairs to shop floor, £5.
,, 8.—Repairs to house property, £8.
,, 8.—Ground rent for shop, £5.
,, 8.—Committee fees, £10.

4. Prepare a Cash Book and enter the following items:—

Jan. 1.—Received £20 share capital from A. Bee.
,, 1.—Received £50 for goods sold.
,, 2.—Banked £65.
,, 3.—Paid shop wages, £5 (cash).
,, 4.—Paid Yew and Mee (by cheque) for goods, £30.
,, 5.—Withdrew £10 from bank, and paid petty cash expenses, £5; L. M. and S. Railway Co., £3.
,, 6.—Received cheque for £5 from Frank Lee for share capital.

5. What is a "dummy" invoice? Mention two cases where such an invoice has been made out in recording the January transactions of the Newway Co-operative Society. Why is such an invoice considered necessary?

6. What is the procedure followed when entering invoices in the Invoice Analysis Book?

7. Make out a statement of expenses according to their nature from the Invoice Analysis Book of the Newway Co-operative Society Ltd. for January, 1926, given in this chapter.

8. What are the column headings employed in the Invoice Analysis Book? Give an illustration showing at least one item for each of the columns in the Analysis Book.

9. What are adjustments? Give three examples.

10. What is the book of primary entry in which adjustments are first entered? Prepare a ruling of a page in such book and enter three items.

11. Illustrate the entries you would make in the books of primary entry for the following adjustments in the accounts at the end of December:—

Rates, £12 paid in October for year ending following March 31st.
Share interest due to members, £40.
Depreciation of machinery, £10.
Interest charged on stocks, £5.

12. Explain the difference between (*a*) land, buildings, and fixtures expenditure; and (*b*) land, buildings, and fixtures charges. Where is depreciation entered in the Invoice Analysis Book, and why is it entered there?

CHAPTER XII.

THE TRANSACTIONS OF THE NEWWAY CO-OPERATIVE SOCIETY LIMITED.—*continued.*

(2) POSTING THE ITEMS FROM THE BOOKS OF PRIMARY ENTRY TO THE LEDGERS.

IN Chapter XI., the transactions of the Newway Co-operative Society for the month of January, 1926, were entered in the books of primary entry, i.e., in the Invoice Analysis Book (or Purchases Book), the Cash Book, and the Journal. The next step is to post the items from these primary books to the various Ledger Accounts. The number of Ledgers employed by a society depends upon the size of the business, and we shall assume that the Ledgers employed by the Newway Society are:—

(1) The Personal Ledger,* for recording the personal side (i.e., Cr. side) of the purchase and expense transactions.

(2) The Impersonal Ledger, for recording the Purchases Account and Sales Account (i.e., the Goods Account divided into two accounts for convenience) and other nominal and real accounts. A separate section of the Ledger can be assigned for the Capital Expenditure Accounts, so that the accounts falling into this class can be kept on neighbouring pages. In a larger society a special Ledger would be kept for these accounts, but it is hardly necessary to keep a special Ledger in a small society.

(3) The Share Ledger, for recording in separate accounts each member's contributions and withdrawals on Share Capital Account.

* In a non-co-operative business, the Ledger in which are recorded the personal entries relating to purchases of goods, or to expenses, is usually named "Purchases Ledger," or "Bought Ledger," and the Ledger in which are recorded the personal entries relating to sales is usually named "Sales Ledger." Both Purchases and Sales Ledgers are Personal Ledgers. As a retail society does not need to keep such a Sales Ledger (except in a limited and special way where credit is given), the term Personal Ledger can be employed instead of Purchases Ledger for the book in which the accounts of creditors (other than creditors for capital) are kept. This avoids possible confusion with the Impersonal Account for purchases. For the Personal Accounts of those who provide capital—shareholders, loanholders, and depositors in a savings bank—separate Ledgers will be provided for each class of creditor, as necessary.

(4) The Investments Ledger, for recording the investments of the society, a separate page being assigned for each investment (e.g., shares in the Co-operative Wholesale Society Ltd.).

POSTING THE ITEMS TO THE PERSONAL LEDGER.

In theory, the personal side of each purchase and allied transaction should be posted from the book of primary entry in which these transactions are entered, viz., the Invoice Analysis Book. In practice, however, there are some advantages, as mentioned in Chapter VII. (page 67), in entering the items in the creditors' accounts direct from the invoice. Both methods are correct; the responsible official will choose between these alternative methods according to the circumstances and his personal preference.

Presuming entries are to be made from the invoices, the clerk will arrange the invoices in number order, which will be strict date order as a rule, and will open a page for each creditor's account if one has not already been opened. The clerk will make an entry on the credit side of the account: " By goods, £20," or will use in place of " goods " such other name as may be necessary to indicate the service for which the supplying firm has become a creditor. This name will, in general, be that of the account in which the corresponding entry (a debit entry) has been made. We will now proceed with the entries in the Personal Ledger of the Newway Society; and in order that we can more easily follow the entry of the invoices received by the society, we will utilise for identification and reference purposes the numbered list of transactions given on pages 108 and 109.

Item.	*Inv. No.*		
(7)	1	Jan. 4.	—A shop having been purchased from John Lord, an account must be opened for Lord in the Personal Ledger and credited in the manner shown on page 128 with £200, the amount of the invoice. In all cases, the number of the invoice is entered in the reference column in the Ledger Account, and the Ledger folio number is entered on the invoice in the place provided by the rubber stamp. In the narration column, the word following the word " By " indicates where the corresponding entry completing the double entry is to be found.
(11)	2–5	„ 5.	—Goods having been purchased from four different firms, a Personal Account must be opened for each of these firms, each account being credited with the amount of the invoice received from the firm whose account is being credited. (See the accounts of C.W.S. Ltd., Smith and Brown, Green and Black, and Wren and Co. on page 128.)

Item.	*Inv. No.*	
(13)	6	Jan. 6.—Fixtures having been purchased from Wood and Co., an account must be opened for Wood and Co. and it must be credited with £10, the amount of the invoice.
(18)	7	,, 11.—Goods having been bought from C.W.S. Ltd., the amount of the purchase (£100) must be credited to the account of the C.W.S. Ltd., which was first opened with the entry of invoice No. 2.
(22)	8	,, 13.—Shopman's wages, £4. No invoice has been received for this amount, but following the plan recommended on page 68, the clerk makes out an invoice (a dummy invoice) for the amount of wages, and treats it in the same way as other invoices. The amount is credited to a "Staff Wages Account," which is opened to receive this and similar items.
(24)	9–10	,, 13.—The accounts already opened for C.W.S. Ltd. and Smith and Brown are credited with £100 and £20 respectively.
(25)	11	,, 13.—An account is opened for Brush and Co. and credited with £20.
(33)	12	,, 16.—The account of the C.W.S. is credited with £10.
(37)	13	,, 20.—As for item 22, invoice No. 8.
(40)	14	,, 21.—The account of the C.W.S. Ltd. is credited with £110.
(45)	15	,, 25.—The account of Smith and Brown is credited with £20.
(49)	16	,, 27.—As for item 22, invoice No. 8.
(51)	17	,, 28.—An account is opened for A. Smith and credited with £5.
(52)	18	,, 28.—An account is opened for L. M. and S. Railway and credited with £2.
(54)	19	,, 28.—An account is opened for the Co-operative Insurance Society Ltd. and credited with £3.
(55)	20	,, 29.—The account of the C.W.S. Ltd. is credited with £120.
(58)	21	,, 30.—As for item 22, invoice No. 8.
(59)	22	,, 30.—An account is opened for the Corporation and credited with £2.
(60)	23	,, 30.—An account is opened for the Post Office and credited with £1.
...	24	,, 30.—A dummy invoice having been prepared for the amount of bank charges, it will be entered in the Invoice Analysis Book; but the amount of the invoice having been already entered in the Bank Account (which is in the nature of a Personal Ledger Account), in the Cash Book no further Ledger entry of a personal nature is required.

This will complete the entry of the invoices in the Personal Ledger. The accounts of the Ledger, when entered up, are shown on pages 128–130, and the instructions given above can be related to the accounts there shown.

THE POSTING OF THE CASH BOOK TO THE PERSONAL LEDGER.

Whilst the Personal Ledger is under our hand it will be convenient to continue the entries in it by posting to it those items in the Cash Book which relate to Personal Ledger Accounts. As the Personal Ledger Accounts refer to purchases from creditors, the entries in the Cash Book that relate to these accounts will be payments—payments for the purchases—and they will therefore be found on the payments or Cr. side of the Cash Book.

The Cash Book is given on pages 112-113, to which we must now refer. The first entry referring to Personal Ledger Accounts is the item of £10 paid to Wood and Co. on January 6th. We therefore turn to Wood and Co.'s Ledger Account and debit it with £10, the entry being:—

Jan. 6.—To Bank £10

For reference purposes the Cash Book folio is entered in the Ledger Account, and the Ledger folio is entered in the Cash Book. We say "To Bank" because the accounts in which the corresponding entry is to be found is the Bank Account. In the Cash Book we say "By Wood and Co." because the corresponding entry is made in Wood and Co.'s account.

The next item is the payment on January 8th to John Lord, and the correct entry is:—

Jan. 8.—To Bank £200

The usual reference numbers are also entered in this and all other cases.

The entries of the remaining items are similar in principle, and we can examine them in the order in which they appear in the Cash Book.

Jan. 11.—The payments to C.W.S. Ltd. (£80), Smith and Brown (£40), Green and Black (£20), and Wren and Co. (£10) are debited to the accounts of these firms in the manner mentioned above in explaining other payments.

,, 13.—The Staff Wages Account is debited with the payment of £4; and the usual references are entered in Ledger and Cash Book.

,, 13.—The account of Brush and Co. is debited with £20.

,, 15.—The account of C.W.S. Ltd. is debited with £100.

,, 20.—The Staff Account is debited with the payment of £4; the account of C.W.S. Ltd. with £100; and the account of Smith and Brown with £20.

Jan. 26.—The account of C.W.S. Ltd. is debited with £120.

,, 27.—The Staff Account is debited with £5.

,, 28.—The account of A. Smith is debited with £5; the account of L. M. and S. Railway with £2; and the account of the Co-operative Insurance Society with £3.

,, 30.—The Staff Account is debited with £8; the Corporation Account with £2; and the Post Office Account with £1.

This will complete the entries in the Personal Ledger, and the accounts at this stage will appear as follows:—

PERSONAL LEDGER.

F. 1.

Dr. JOHN LORD. *Cr.*

		C.B.	£	s.	d.			Inv. No.	£	s.	d.
Jan. 8	To Bank.....	1	200	0	0	Jan. 4	By Shop	1	200	0	0

F. 2.

Dr. CO-OPERATIVE WHOLESALE SOCIETY LTD. *Cr.*

		C.B.	£	s.	d.			Inv. No.	£	s.	d.
Jan. 11	To Bank.....	1	80	0	0	Jan. 5	By Goods ...	2	80	0	0
,, 15	,, ,, ...	1	100	0	0	,, 11	,, ,, ...	7	100	0	0
,, 20	,, ,, ...	1	100	0	0	,, 13	,, ,, ...	9	100	0	0
,, 26	,, ,, ...	1	120	0	0	,, 16	,, Stat'n'y .	12	10	0	0
						,, 21	,, Goods ...	14	110	0	0
						,, 29	,, ,, ...	20	120	0	0

F. 3.

Dr. SMITH & BROWN. *Cr.*

		C.B.	£	s.	d.			Inv. No.	£	s.	d.
Jan. 11	To Bank.....	1	40	0	0	Jan. 5	By Goods ...	3	40	0	0
,, 20	,, ,, ...	1	20	0	0	,, 13	,, ,, ...	10	20	0	0
						,, 25	,, ,, ...	15	20	0	0

F. 4.

Dr. GREEN & BLACK. *Cr.*

		C.B.	£	s.	d.			Inv. No.	£	s.	d.
Jan. 11	To Bank.....	1	20	0	0	Jan. 5	By Goods ...	4	20	0	0

F. 5.

Dr. WREN & CO. *Cr.*

		C.B.	£	s.	d.			Inv. No.	£	s.	d.
Jan. 11	To Bank.....	1	10	0	0	Jan. 5	By Goods ...	5	10	0	0

F. 6.

Dr. WOOD & CO. *Cr.*

		C.B.	£	s.	d.			Inv. No.	£	s.	d.
Jan. 6	To Bank.....	1	10	0	0	Jan. 6	By Fixtures.	6	10	0	0

F. 7.

Dr. BRUSH & CO. *Cr.*

		C.B.	£	s.	d.			Inv. No.	£	s.	d.
Jan. 13	To Bank.....	1	20	0	0	Jan. 13	By Painting (L., B., & F. Account) ...	11	20	0	0

F. 8.

Dr. A. SMITH. *Cr.*

		C.B.	£	s.	d.			Inv. No.	£	s.	d.
Jan. 28	To Cash.....	1	5	0	0	Jan. 28	By Carriage (Delivery) .	17	5	0	0

F. 9.

Dr. L. M. & S. RAILWAY CO. *Cr.*

		C.B.	£	s.	d.			Inv. No.	£	s.	d.
Jan. 28	To Cash.....	1	2	0	0	Jan. 28	By Carriage (Goods Account)	18	2	0	0

F. 10.

Dr. CO-OPERATIVE INSURANCE SOCIETY LTD. *Cr.*

		C.B.	£	s.	d.			Inv. No.	£	s.	d.
Jan. 28	To Bank.....	1	3	0	0	Jan. 28	By Insurance (various)	19	3	0	0

F. 11.

Dr. CORPORATION. *Cr.*

		C.B.	£	s.	d.			Inv. No.	£	s.	d.
Jan. 30	To Bank.....	1	2	0	0	Jan. 30	By Electricity (L., B., & F. Charges)	22	2	0	0

F. 12.

Dr. POST OFFICE. *Cr.*

		C.B.	£	s.	d.			Inv. No.	£	s.	d.
Jan. 30	To Bank.....	1	1	0	0	Jan. 30	By Telephone Charges(Selling Exp'nses)	23	1	0	0

F. 13.

Dr. STAFF (WAGES). *Cr.*

		C.B.	£	s.	d.			Inv. No.	£	s.	d.
Jan. 13	To Cash	1	4	0	0	Jan. 13	By Selling Expenses—				
,, 20	,, ,, ...	1	4	0	0		Shop Wages	8	4	0	0
,, 27	,, ,, ...	1	5	0	0	,, 20	,, ,,	13	4	0	0
,, 30	,, ,, ...	1	8	0	0	,, 27	,, ,,	16	5	0	0
						,, 30	Office Wages	21	8	0	0

POSTING THE REMAINING ITEMS OF THE CASH BOOK TO THE IMPERSONAL LEDGER, THE SHARE LEDGER, AND THE INVESTMENTS LEDGER.

Whilst the Cash Book is at hand, we may conveniently post the remaining items to their appropriate accounts, and commence with the Dr. (or receipts) side of the Cash Book.

Jan. 1.—The first entry is £5 received as share capital from Charles Jones. This item has to be entered in the Share Ledger, where an account will be opened in the name of Charles Jones (his address and other particulars being added), and this account will be credited with £5. Reference numbers will be entered in both the Cash Book and the Ledger. The entry will be:—

Jan. 1. C.B. 1. By Cash, £5.

The entries relating to Wood, Ogden, Palmer, Hunt, Pollitt, and Brown are similar in nature, and after opening an account for each of these members, it will be credited with £5.

,, 2.—The same procedure should be followed in the case of each of the members 8 to 27; but as our space is limited, and no new principle is involved, we propose to open only one Ledger Account for the whole of the remaining shareholders, and give it the heading "Sundry Shareholders." This account will be credited with £40 for cash received.

,, 4.—£75 paid into bank. This is described as a "*contra*" entry, as indicated by the abbreviation C/–. Cash has been credited with the amount, and the bank has been debited with it. The credit entry has been equalled by a corresponding debit entry, and no further entry is necessary.

,, 4.—Further receipts of share capital are credited to Jones, Wood, and Ogden in their respective accounts in the Share Ledger, and to members 28–57 in the Sundry Shareholders' Account in the same Ledger.

Jan. 5.—£180 paid into bank. This is a *contra* account of the kind explained for January 4th.

,, 5.—Share capital from members 58 to 77 is credited to the Sundry Shareholders' Account in the Share Ledger; and share capital from Pollitt and Hunt is credited to their respective accounts in the same Ledger.

,, 6.—Cash paid into bank, £80. A *contra* entry.

,, 7.—Shop takings, £20. This amount represents the value of sales, and is to be credited to a Sales Account that must be opened in the Impersonal Ledger.

,, 8.—Share capital from members 78–87. The entry is the same as for similar receipts of this kind, already explained.

,, 8.—Cash paid into bank, £30. A *contra* entry.

,, 8.—Shop takings. The entry is the same as for the similar item on January 7th.

,, 11.—Shop takings. The entry is the same as for the similar item on January 7th.

,, 11.—Cash paid into bank, £40. A *contra* entry.

,, 12.—Cash paid into bank, £20. A *contra* entry. Similar items occur on January 13th, 14th, 15th, 16th, 18th, 19th, 20th, 21st, 22nd, 23rd, 25th, 26th, 27th, 28th, 29th, and 30th. As they are all treated in the same way, no further explanation of them is required.

,, 12.—Shop takings, £25. As the posting of this type of item has already been explained, no further explanation is required respecting this item or the similar items on January 13th, 14th, 15th, 16th, 18th, 19th, 20th, 21st, 22nd, 23rd, 25th, 26th, 27th, 28th, 29th, and 30th.

,, 14.—New members' share capital. The entry is the same as for the similar item on January 8th. The item £100 received from Jones is credited to his account in the Share Ledger.

,, 22.—New members' share capital. Entered as before.

This completes the examination of the posting of the items on the Dr. (receipts) side of the Cash Book.

We may now proceed to examine and post the remaining items on the Cr. (payments) side of the Cash Book. As *contra* account items have been already explained, they will be omitted in the explanations that follow. The first item calling for attention is the one on January 14th—a share investment in the C.W.S. Ltd. In the Investments Ledger a page must be assigned to "C.W.S. Ltd.—Share Investments," and this account must be debited with £100, the appropriate reference numbers being entered in the Ledger and the Cash Book. The next entry to be noticed is the repayment of £5 share capital to Frank Wood on January 19th. This amount is debited to Frank Wood's account in the Share Ledger.

This completes the examination and posting of the Cash Book items to the various Ledgers, as the item of £1 for cheque book has already been entered in the Invoice Analysis Book.

POSTING THE IMPERSONAL LEDGER FROM THE INVOICE ANALYSIS BOOK.

In an earlier chapter, illustrations were given of journalising, to show that each debit has a corresponding credit, and, vice versa, that each credit has a corresponding debit. In Chapter VII. we went a step further and showed that, so far as purchases are concerned, time and labour could be saved by debiting the Goods Account (or Purchases Account) with one item—the total purchases for the month—instead of each individual purchase. We have already made the entries for the personal side of the transactions of the Newway Co-operative Society for January, and we now have to make the debit entries of the expenditure as recorded in the Invoice Analysis Book. They are, of course, impersonal entries, and they have to be recorded in the Impersonal Ledger. We shall require a separate page for each of the classes of expenditure for which a column was allocated in the Invoice Analysis Book. They are:—

Goods,
Goods and stock charges,
Selling expenses,
Delivery expenses,
Land, buildings, and fixtures charges,
General charges,
Investments Revenue Account expenditure,
Final Revenue Account expenditure, and
Capital expenditure.

A page having been opened for each of these classes of expenditure, the totals of the various columns are entered in the appropriate account on the debit side. We have credited the sellers individually; we have now debited the business with equivalent amounts.

There are, however, one or two points to be mentioned before we have completed our task properly. It will be convenient, and not difficult, in the case of the Investments Revenue Account and Final Revenue Account to indicate the nature of the expenses which make up the total expenditure under these headings. The information will be required for balance sheet purposes, and can be conveniently inserted when entering up the account in the Impersonal Ledger. The point is illustrated in the Investments Revenue Account charges given on page 136, and in the Investments Revenue Account included in Chapter XIII.

We may also take advantage of the opportunity afforded by our posting of the capital expenditure to point out that we may open separate accounts for different classes (if any) of capital expenditure. Thus we may desire to keep separate records of the value of the shop and of the fixtures, for it is a general practice to depreciate these assets at different percentage rates upon their original value, and if the original values are not separately recorded, the determination of the amount to be allowed as depreciation in each case will not be easy. In a larger society, with a separate Analysis Book for capital expenditure, separate columns will be provided for the various classes of capital expenditure—land, buildings, fixtures, machinery, rolling stock, etc. For the time being we can adopt the simpler method of recording capital expenditure mentioned above, which is sufficient for small societies where the entries are few in number. (See also the Land, Buildings, and Fixtures Capital Account on page 136.)

The Impersonal Ledger Accounts, when completed, will appear as shown on pages 135–137.

THE COMPLETION OF THE POSTINGS FROM THE JOURNAL.

In Chapter XI. the Journal entries necessary to record the adjustments at the end of the month were explained, and they were entered in the Journal. Some of these Journal entries were then transferred to the Invoice Analysis Book, and their amounts were included in the column totals that have been posted in this chapter to various Impersonal Ledger Accounts. There remain, however, some of the entries in the Journal still to be posted, and these now claim our attention as being the last of the postings to be made in the Ledgers. We shall explain the entries in turn, referring to them by the numbers given them when illustrating the Journal in Chapter XI. As mentioned on page 17, entries posted from the Journal to the Ledger are entered on the same side in the Ledger as that upon which they appear in the Journal. Dr. entries in the Journal appear on the Dr. side of the Ledger, and Cr. entries in the Journal appear on the Cr. side of the Ledger. The Journal only states which is the Dr. side and which is the Cr. side of each transaction. The Ledgers record the two sides of the transactions.

Item.

(1) This debit entry has already been dealt with by an entry in the Invoice Analysis Book.

Item.

(2) This is the credit entry to No. 1. We must open a Ledger Account for "Share Interest due to Members," and credit the account with the £2. In the small society we shall probably find it most convenient to assign a few pages in the Impersonal Ledger for this and similar accounts, which are in the nature of Suspense Accounts—accounts of a temporary nature. The treatment of these accounts for balance sheet purposes is explained later in this chapter, and their treatment after the balance sheet has been prepared is explained in Chapter XIV.

(3) This item represents interest earned but not yet credited to the society by the C.W.S. Although it is not desirable to debit the C.W.S. with the amount, the society is entitled to allow for the £1 in its accounts, and will open an Accrued Interest Account in the Ledger (Impersonal Ledger in the small society, for reasons given above), and debit this account with the amount. It will eventually appear in the balance sheet as an asset.

(4) This item has to be credited eventually to the Investments Revenue Account, and may be entered directly in that account, or, preferably, in an "Interest Receivable Account," from which it will be transferred at a later stage, with any other items of a similar nature, to the Investments Revenue Account.

(5) This has already been entered in the Invoice Analysis Book (Land, Buildings, and Fixtures Charges).

(6) For this entry an account must be opened for Sundry Accounts Owing, and the account must be credited with £1.

(7) This item has already been entered in the Invoice Analysis Book (Land, Buildings, and Fixtures Charges).

(8) The Shop and Fixtures Account in the Impersonal Ledger (or the two accounts if the shop and fixtures are recorded in separate accounts) must be credited with this amount of £1. The book value of these assets is reduced by the amount thus written off as depreciation.

(9) This item has already been entered in the Invoice Analysis Book (Land, Buildings, and Fixtures Charges).

(10) This item can be credited direct to the Investments Revenue Account, or, preferably, as in the case of item 4, to the Interest Receivable Account in the first place.

(11) This item has already been entered in the Invoice Analysis Book (Goods and Stock Charges).

(12) This item for interest on stocks should be credited to Interest Receivable Account in the same way that the interest charged on buildings, etc., was credited to it in the case of item 10. It will eventually be credited to the Investments Revenue Account.

(13) This item has already been entered in the Invoice Analysis Book (Selling Expenses).

(14) This item should be credited to Accounts Owing, as was item 6.

With the posting of these items from the Journal, the whole of the Ledger entries have been made, and the next step is to ascertain their accuracy as far as that ascertainment is possible. For this purpose a trial balance must be prepared, and the trial balance will engage our attention in the next chapter. It only remains, therefore, as a completion of this chapter to show the accounts in the various Ledgers as they will appear at this stage when all the postings explained in this chapter have been made.

IMPERSONAL LEDGER.

F. 1.

Dr. SALES ACCOUNT. *Cr.*

			C.B.	£	s.	d.
Jan. 7	By Cash.....		1	20	0	0
,, 8	,, ,, ...		1	25	0	0
,, 11	,, ,, ...		1	20	0	0
,, 12	,, ,, ...		1	25	0	0
,, 13	,, ,, ...		1	20	0	0
,, 14	,, ,, ...		1	25	0	0
,, 15	,, ,, ...		1	30	0	0
,, 16	,, ,, ...		1	35	0	0
,, 18	,, ,, ...		1	25	0	0
,, 19	,, ,, ...		1	30	0	0
,, 20	,, ,, ...		1	80	0	0
,, 21	,, ,, ...		1	25	0	0
,, 22	,, ,, ...		1	25	0	0
,, 23	,, ,, ...		1	20	0	0
,, 25	,, ,, ...		1	20	0	0
,, 26	,, ,, ...		1	25	0	0
,, 27	,, ,, ...		1	30	0	0
,, 28	,, ,, ...		1	30	0	0
,, 29	,, ,, ...		1	40	0	0
,, 30	,, ,, ...		1	30	0	0

F. 2.

Dr. GOODS PURCHASED. *Cr.*

		I.A.B.	£	s.	d.					
Jan.30	To Sundry Persons	1	622	0	0					

F. 3.

Dr. GOODS AND STOCK CHARGES. *Cr.*

		£	s.	d.		£	s.	d.					
Jan.30	To Sundry Persons—												
	Insur'ce on												
	Stock	1	0	0	I.A.B.								
	Int. on St'k	1	0	0	1								
						2	0	0					

F. 4.

Dr. SELLING EXPENSES. *Cr.*

		£	s.	d.		£	s.	d.					
Jan.30	To Sundry Persons—												
	Wages	18	0	0	I.A.B.								
	Telephone ..	1	0	0	1								
						19	0	0					

F. 5.

Dr. DELIVERY EXPENSES. *Cr.*

		I.A.B.	£	s.	d.					
Jan.30	To Sundry Persons	1	5	0	0					

F. 6.

Dr. LAND, BUILDINGS, AND FIXTURES CHARGES. *Cr.*

		£ s. d.		£ s. d.			
Jan. 30	To Sundry Persons—						
	Painting ...	20 0 0					
	Insurance ..	2 0 0					
	Gr'nd Rent	1 0 0					
	Deprec'tion	1 0 0					
	Interest on Land, Buildings, & Fixtures	1 0 0	I.A.B. 1				
	Electricity..	2 0 0					
				27 0 0			

F. 7.

Dr. GENERAL CHARGES. *Cr.*

		£ s. d.		£ s. d.			
Jan. 30	To Sundry Persons—						
	Stationery..	10 0 0					
	OfficeWag's	8 0 0	I.A.B. 1				
	Bank Charges....	1 0 0					
				19 0 0			

F. 8.

Dr. INVESTMENTS REVENUE ACCOUNT CHARGES. *Cr.*

			£ s. d.			
Jan. 30	To Share Int.—Members	I.A.B. 1	2 0 0			

F. 9.

Dr. FINAL REVENUE ACCOUNT CHARGES. *Cr.*

F. 10.

Dr. LAND, BUILDINGS, AND FIXTURES CAPITAL ACCOUNT. *Cr.*

		£ s. d.		£ s. d.				£ s. d.
Jan. 30	To Sundry Persons—				Jan. 30	By Land, Buildings, & Fixtures Charges (Depreciation).....	J. 1	1 0 0
	Shop ...	200 0 0	I.A.B. 1					
	Fixtures	10 0 0						
				210 0 0				

F. 11.

Dr. INTEREST RECEIVABLE ACCOUNT. *Cr.*

				J.	£ s. d.
		Jan. 30	By Accrued Interest A/c.	1	1 0 0
		,, 30	,, Land, Buildings, and Fixtures Charges ...	1	1 0 0
		,, 30	,, Goods and Stock Charges.....	1	1 0 0

F. 12.

Dr. SHARE INTEREST DUE TO MEMBERS. *Cr.*

						£ s. d.
			Jan. 30	By Investments Revenue Account	J. 1	2 0 0

F. 13.

Dr. ACCRUED INTEREST ACCOUNT. *Cr.*

			£ s. d.			
Jan. 30	To Interest Receivable Account (C.W.S. Share Interest)	J. 1	1 0 0			

F. 14.

Dr. SUNDRY ACCOUNTS OWING. *Cr.*

						£ s. d.
			Jan. 30	By Land, Buildings, and Fixtures Charges (Ground Rent).....	J. 1	1 0 0
			,, 30	,, Selling Expenses (Staff Wages)	1	5 0 0

INVESTMENTS LEDGER.

F. 1.

CO-OPERATIVE WHOLESALE SOCIETY LTD.

Dr. SHARE INVESTMENTS. *Cr.*

		C.B.	£ s. d.			
Jan. 14	To Bank.....	1	100 0 0			

SHARE LEDGER.

F. 1.

Dr. CHARLES JONES. *Cr.*

				C.B.	£ s. d.
Jan. 1	By Cash.....	1	5 0 0
,, 4	,, ,, ...	1	50 0 0
,, 14	,, ,, ...	1	100 0 0

F. 2.

Dr. FRANK WOOD. *Cr.*

		C.B.	£ s. d.			C.B.	£ s. d.
Jan. 19	To Cash.....	1	5 0 0	Jan. 1	By Cash.....	1	5 0 0
				,, 4	,, ,, ...	1	60 0 0

F. 3.

Dr. ROBERT OGDEN. *Cr.*

		C.B.	£	s.	d.
Jan. 1	By Cash.....	1	5	0	0
,, 4	,, ,, ...	1	40	0	0

F. 4.

Dr. JOSEPH PALMER. *Cr.*

		C.B.	£	s.	d.
Jan. 1	By Cash.....	1	5	0	0

F. 5.

Dr. JAMES HUNT. *Cr.*

		C.B.	£	s.	d.
Jan. 1	By Cash.....	1	5	0	0
,, 5	,, ,, ...	1	20	0	0

F. 6.

Dr. THOMAS POLLITT. *Cr.*

		C.B.	£	s.	d.
Jan. 1	By Cash.....	1	5	0	0
,, 5	,, ,, ...	1	20	0	0

F. 7.

Dr. KAY BROWN. *Cr.*

		C.B.	£	s.	d.
Jan. 1	By Cash.....	1	5	0	0

F. 8.

Dr. SUNDRY SHAREHOLDERS (8 to 107). *Cr.*

		C.B.	£	s.	d.
Jan. 2	By Cash— M'b'rs 8/27	1	40	0	0
,, 4	,, 28/57	1	60	0	0
,, 5	,, 58/77	1	40	0	0
,, 8	,, 78/87	1	20	0	0
,, 14	,, 88/97	1	20	0	0
,, 22	,, 98/107	1	20	0	0

SUMMARY.

The entries in the books of primary entry are posted from these books to Ledger Accounts. These Ledger Accounts are of different classes, and in large societies separate Ledgers are kept for each class of Ledger Account. In smaller societies, the expense and inconvenience of handling a number of Ledgers can be avoided by keeping more than one class of Ledger Account in one Ledger. In the Newway Co-operative Society the Ledgers employed are:—

(1) The Personal Ledger, for recording the personal side of the purchases and expense transactions.

(2) The Impersonal Ledger, for recording the Purchases Account, Sales Account, and other nominal and real accounts. A separate section of the Ledger can be assigned for the Capital Expenditure Accounts.

(3) The Share Ledger, for recording each member's Share Account.

(4) The Investments Ledger, for recording the investments of the society.

These Ledgers are posted from the Invoice Analysis Book (or the invoices), the Cash Book, and the Journal.

The personal entries relating to the invoices for goods and expenses can be entered direct into the Personal Ledger, or entered first in the Invoice Analysis Book and thence to the Personal Ledger. In entering the Personal and other Ledgers, the account in which the corresponding entry is to be found will be entered in the narration column.

In posting the invoice amounts to the Personal Ledger, the entries are made on the Cr. side of the Ledger, because the various firms are creditors of the society for goods supplied or services rendered.

When the items in the Cash Book are being posted to the Personal Ledger, they will be posted to the side opposite from that on which they appear in the Cash Book. As the items will usually be payments of accounts, and therefore on the Cr. side of the Cash Book, they will be posted to the Dr. side of the Personal Ledger, and, rightly, will represent the payee (i.e., the firm to whom the amounts have been paid) as a debtor of the society for the amounts paid.

The same general principle is followed in posting the remaining Cash Book items to the Impersonal Ledger, the Share Ledger, and the Investments Ledger, viz., the items on the Dr. side of the Cash Book are posted to the Cr. side of the Ledger Accounts; and the items on the Cr. side of the Cash Book are posted to the Dr. side of the Ledger Accounts. There is no posting of items which have a *contra* entry in the Cash Book itself.

In posting the Invoice Analysis Book, the totals of the nine analysis columns are posted to the credit of the accounts corresponding to the name given at the head of each column.

The items in the Journal which were entered in the Invoice Analysis Book have now been posted to the Ledgers through the posting of the columns totals to the Impersonal Ledger; and the remaining entries in the Journal are now posted to the appropriate Ledger Account. It must be remembered (as mentioned on page 17) that items from the Journal appear in the Ledger on the same side, i.e., Dr. entries in the Journal become Dr. entries in the Ledger, whilst Cr. entries in the Journal become Cr. entries in the Ledger.

When all these entries have been made, the Ledger entries are complete; and the next step is the preparation of the trial balance and the balance sheet.

QUESTIONS AND EXERCISES.

1. What is the difference between a Personal Ledger Account and an Impersonal Ledger Account ? Give two examples of each.

2. From what sources are the entries in the Personal Ledger Accounts made in a business which buys and sells on credit ? Give an example of a Personal Ledger Account and indicate the sources from which the entries would be derived.

3. To which sides of the Ledger Accounts are the Dr. and Cr. items in the Cash Book posted, and why are they posted to these sides ?

4. In what class of Ledger Account—Personal or Impersonal—should each of the following items be found ? Give reasons for your answer in each case :—

Goods sold during the month.
Wages paid.
Paid £10 for goods to C.W.S. Ltd.
Bought a new machine value £100.
Share interest for quarter, £30.

5. Where would you expect to find the two entries making the double entry for each of the following transactions ?—

Jan. 1.—Share capital received from A. Lord, £10.
,, 2.—Bought goods from C.W.S. Ltd., £50.
,, 6.—Paid C.W.S. Account, £50.
,, 8.—Bought new machine from C. D. and Co., £200
,, 9.—Paid wages, £20.

6. Where are the entries posted from the Journal, and on which side of the Ledger Account do the items eventually appear ?

7. What are the two Ledger entries required to complete the double entry in the case of :—

(*a*) A depreciation charge against buildings amounting to £20.
(*b*) Carriage on goods inwards amounting to £4.
(*c*) Share capital received from members.
(*d*) Goods value £20 received for which no invoice has been received.
(*e*) Interest charges on stocks amounting to £5.

8. On which side of the Investments Account would you enter a withdrawal of shares (£50), and why would you enter it on this side ?

9. If discount columns are employed in the Cash Book, to which side of the Ledger Account should the totals be posted ? Give reasons for your answer.

10. Where is the double entry record of bank charges made ? Where would the two sides of the transaction be entered in the case of bank interest ?

11. What differences would you expect to find between a small society and a large society in regard to the Invoice Analysis Book ?

12. Prepare :—

(*a*) A Share Ledger Account for John Jones, showing contributions £20 and withdrawals £1.
(*b*) A Machinery Account showing machinery value £500 and depreciation £10.
(*c*) The Personal Account of John Jones in the books of A. Bee and Co., recording purchases by the former from the latter of goods value £30 and the payment on account thereof of £10.

CHAPTER XIII.

THE TRANSACTIONS OF THE NEWWAY CO-OPERATIVE SOCIETY LIMITED.—*continued.*

(3) THE TRIAL BALANCE AND BALANCE SHEET.

What is the Trial Balance and what is its Utility?

THE trial balance is a summary of the Ledger Accounts or of the balances of the Ledger Accounts. If the entries have been correctly made—if every debit has had its corresponding credit and every credit has had its corresponding debit—the total of the Cr. entries and the total of the Dr. entries should agree. The trial balance shows whether these totals do agree or not. This agreement is not a finally conclusive proof that all the entries have been correctly made. If a Dr. entry has been entered as a Dr. entry but in the wrong account, there will still be agreement between debits and credits, and the error will not be revealed by the trial balance. This limitation of the value of a trial balance should not be overlooked.

To prepare the summary which constitutes a trial balance, each Ledger must be gone through and all the accounts must be examined. There are two forms of trial balance—the full trial balance and the skeleton trial balance. The full trial balance includes the total of the Dr. and Cr. sides of every account, whilst the skeleton trial balance is a summary which includes only those accounts in which there is a balance, the accounts in which the Dr. and Cr. entries are equal in amount being thus omitted. In both the full and the skeleton trial balances it is possible to list all the accounts separately or to summarise many of the items first and enter only the summarised total of these accounts. For

example, each shareholder's account might be included in the trial balance, but the entry of each account would be a big task, making the trial balance a very long one; and it is preferable to list the shareholders' accounts on a separate sheet and include in the trial balance only the total. Similarly, the creditors' accounts can be entered individually in the trial balance, but it is usual to summarise them first and include only one item, "Sundry Creditors." The trial balance being only a summary and not a double-entry posting, the items appear in the trial balance on the same side as in the Ledger. If the Dr. side of an account is greater than the Cr. side the balance is a debtor balance, and in the skeleton trial balance this balance *must be entered in the Dr. column.** When the Ledger Account is being balanced the amount of the balance is, of course, first entered on the Cr. side and then carried to the Dr. side of the same or some other account.

It is an advantage to prepare a trial balance before commencing the preparation of the balance sheet. Any errors or omissions in posting will then be revealed by the trial balance. The trial balance is also helpful in building up the accounts of the balance sheet; and in examinations the student is frequently given a trial balance and asked to prepare a balance sheet from it and supplementary information that is given. A trial balance can be prepared before the various adjustments are made at the end of a trading period, and this procedure is wise. If this trial balance balances, any subsequent errors must arise through the adjustments.

The Full Trial Balance.

For the purpose of illustrating a full trial balance, showing all the individual Ledger Accounts, we may take the Ledgers of the Newway Co-operative Society, outlined in Chapter XII. We must not forget that the cash columns in the Cash Book are a Ledger Account of the cash department, and the bank columns in that book are a Ledger Account of the bank transactions. We may begin with these items and then examine the various Ledgers in turn, going through them carefully to make sure that every

* This is a departure from the method adopted in the previous text-book in Co-operative Book-keeping, but is in line with the methods taught in all other text-books, and it is, in the author's opinion, the correct method.

account is entered. Working on these lines our trial balance at the end of January should appear as follows:—

NEWWAY CO-OPERATIVE SOCIETY LIMITED.

FULL TRIAL BALANCE, JANUARY 30TH, 1926.

Ledger Account.		Ledger Folio.	Dr.			Cr.		
			£	s.	d.	£	s.	d.
Cash Book.	Cash	C.B. 1	1055	0	0	1013	0	0
	Bank	C.B. 1	980	0	0	827	0	0
		Imp. Led.						
Impersonal Ledger.	Sales	1	.....			530	0	0
	Purchases	2	622	0	0	.....		
	G. and S. Charges	3	2	0	0	.....		
	Selling Expenses	4	19	0	0	.....		
	Delivery Expenses	5	5	0	0	.....		
	L., B., and F. Charges	6	27	0	0	.....		
	General Charges	7	19	0	0	.....		
	Investments Revenue Account Charges	8	2	0	0	.....		
	L., B., & F. (Capital A/c.)	10	210	0	0	1	0	0
	Interest Receivable A/c.	11	.....			3	0	0
	Share Interest due to Members	12	.....			2	0	0
	Accrued Interest Account	13	1	0	0	.....		
	Sundry Accounts owing	14	.....			6	0	0
Investments Ledger.		Inv. Led.						
	Investments	1	100	0	0	.....		
		Sh. Led.						
Share Ledger.	C. Jones	1	.....			155	0	0
	F. Wood	2	5	0	0	65	0	0
	R. Ogden	3	.....			45	0	0
	J. Palmer	4	.....			5	0	0
	J. Hunt	5	.....			25	0	0
	T. Pollitt	6	.....			25	0	0
	K. Brown	7	.....			5	0	0
	Other Shareholders	8–107	.....			200	0	0
		Pers. Led.						
Personal Ledger.	John Lord	1	200	0	0	200	0	0
	C.W.S. Ltd.	2	400	0	0	520	0	0
	Smith and Brown	3	60	0	0	80	0	0
	Green and Black	4	20	0	0	20	0	0
	Wren and Co.	5	10	0	0	10	0	0
	Wood and Co.	6	10	0	0	10	0	0
	Brush and Co.	7	20	0	0	20	0	0
	A. Smith	8	5	0	0	5	0	0
	L. M. and S. Railway	9	2	0	0	2	0	0
	Co-operative Insurance Society Ltd.	10	3	0	0	3	0	0
	Corporation	11	2	0	0	2	0	0
	Post Office	12	1	0	0	1	0	0
	Staff	13	21	0	0	21	0	0
			£3801	0	0	£3801	0	0

We may now proceed to prepare a full and skeleton trial balance, with the Share Ledger Accounts and the Personal Ledger Accounts summarised. The following are the trial balances in the new form:—

NEWWAY CO-OPERATIVE SOCIETY LIMITED.

TRIAL BALANCE, JANUARY 30TH, 1926.

LEDGER ACCOUNT.	Ledger Folio.	FULL TRIAL BALANCE.				SKELETON TRIAL BALANCE.			
		Dr.		*Cr.*		*Dr.*		*Cr.*	
		£ s. d.		£ s. d.		£ s. d.		£ s. d.	
Cash	C. B. 1	1055 0 0		1013 0 0		42 0 0		.....	
Bank	C. B. 1	980 0 0		827 0 0		153 0 0		.....	
Sales	Imp. L. 1	.....		530 0 0		.....		530 0 0	
Purchases	,, 2	622 0 0		.....		622 0 0		.....	
Goods and Stock Charges	,, 3	2 0 0		.....		2 0 0		.....	
Selling Expenses	,, 4	19 0 0		.....		19 0 0		.....	
Delivery Expenses	,, 5	5 0 0		.....		5 0 0		.....	
Land, Buildings, and Fixtures Charges	,, 6	27 0 0		.....		27 0 0		.....	
General Charges	,, 7	19 0 0		.....		19 0 0		.....	
Investments Revenue Account Charges	,, 8	2 0 0		.....		2 0 0		.....	
Final Revenue Account Charges	,, 9	.....		.....		.....		.....	
Land, Buildings, and Fixtures (Capital Account)	,, 10	210 0 0		1 0 0		209 0 0		.....	
Interest Receivable Account	,, 11	.....		3 0 0		.....		3 0 0	
Share Interest due to Members	,, 12	.....		2 0 0		.....		2 0 0	
Accrued Interest Account	,, 13	1 0 0		.....		1 0 0		.....	
Sundry Accounts owing	,, 14	.....		6 0 0		.....		6 0 0	
C.W.S. Share Investment	Inv. L. 1	100 0 0		.....		100 0 0		.....	
Sundry Shareholders	S. L. 1/107	5 0 0		525 0 0		.....		520 0 0	
Sundry Creditors	Pers. L.	754 0 0		894 0 0		.....		140 0 0	
TOTAL		£3801 0 0		£3801 0 0		£1201 0 0		£1201 0 0	

THE BALANCE SHEET.

As was explained in Chapter VI. (page 53), the balance sheet contains the following essential accounts:—

1. Cash Account—showing receipts and payments.
2. Revenue Account—showing the revenue income and expenditure, and the results of the society's business operations. The account is divided into—
   (*a*) Trading Account.
   (*b*) Investments Revenue Account.
   (*c*) Final Revenue Account.
3. Statement of Liabilities and Assets.

A fourth account—a Disposable Balance Account—is added for the information of members. This account is divided into two parts. It shows in its first part how the society's surplus at the date of the

previous balance sheet was disposed of, and in its second part the proposed disposal of the surplus available at the date of the current balance sheet. Where a society has an educational fund, a separate account is kept for this fund, but it is distinct from the other accounts, and an explanation of the account can be conveniently left to the second part of this book. We will, therefore, now proceed to the preparation of the Cash Account, Revenue Accounts (i.e., Trading Account, Investments Revenue Account, and Final Revenue Account), and the Statement of Assets and Liabilities, and afterwards prepare a Disposable Balance Account.

CASH ACCOUNT.

The group headings for the Cash Account are given in Chapter IV (page 32), and for purposes of reference when deciding the correct group for any doubtful receipt or payment a list of the items likely to occur in a society is given in an appendix, where a complete form of a Standard Balance Sheet in blank is given. The group headings are:—

Capital Account,
Sundry Items,
Trading Account,
Investments Revenue and
Final Revenue Accounts,
Disposable Balance Account (for payments).

If the receipts and payments, as shown in the Cash Book, are summarised under these headings (*contra* entries may be ignored) they will be found to result in the following statement:—

CASH

Dr. January

RECEIPTS.	£ s. d.	£ s. d.
Capital Account.		
To Contributions—		
Shares	525 0 0	
Loans	.....	
Savings-Bank Deposits	.....	
		525 0 0
Sundry Items. Nil.	.....	
Trading Account.		
,, Sales (Goods)	530 0 0	
,, ,, (Sundries)	.....	
,, Dividend on Purchases	.....	
		530 0 0
Investments Revenue and Final Revenue Account. Nil.	.....	.....
	£1055 0 0	£1055 0 0

ACCOUNT.
30th, 1926. *Cr.*

PAYMENTS.	£ s. d.	£ s. d.
Capital Account.		
By Repayments—		
Shares	5 0 0	
Loans	.....	
Savings-Bank	.....	
		5 0 0
Capital Expenditure.		
,, Land and Buildings	200 0 0	
,, Fixed Stock	10 0 0	
		210 0 0
Share and Loan Investments.		
,, Shares	100 0 0	
		100 0 0
Sundry Items. Nil.	.....	
Trading Account.		
,, Goods	482 0 0	
,, Wages	21 0 0	
,, Other Expenses chargeable to Trade	42 0 0	
		545 0 0
Investments Revenue and Final Revenue Account. Nil.	.....	.....
Total Payments	860 0 0	860 0 0
,, Cash in hand	42 0 0	
,, ,, at Bank	153 0 0	195 0 0
	£1055 0 0	£1055 0 0

In making out the foregoing summary it is not difficult to classify the receipts of the Newway Society, for they fall into only two groups—share contributions and sales of goods. The payments fall into a larger number of classes. The £5 repaid to F. Wood is clearly a repayment of shares. The payments to Wood and Co. (£10, January 6th) and John Lord (£200, January 8th) are clearly payments on account of capital expenditure, and are so classified in the Cash Account. The £100 invested in the C.W.S. as shares clearly finds its proper place under the heading Share and Loan Investments. The £482 recorded as payment for goods, the £21 for wages, and the £42 for other expenses, are made up as follows:—

Goods.	£	Wages.	£	Other Expenses.	£
Jan. 11.—C.W.S. Ltd.....	80	Jan. 13	4	Jan. 4.—Cheque Book..	1
,, 11.—Smith & Brown	40	,, 20	4	,, 7.—Brush & Co....	20
,, 11.—Green & Black	20	,, 27	5	,, 20.—C.W.S. Ltd. ...	10
,, 11.—Wren & Co.	10	,, 30	8	,, 28.—C.I.S.....	3
,, 15.—C.W.S. Ltd.....	100			,, 28.—A. Smith.....	5
,, 20.—C.W.S. Ltd.....	100			,, 30.—Corporation....	2
,, 20.—Smith & Brown	20			,, 30.—Post Office	1
,, 26.—C.W.S. Ltd.....	110				
,, 28.—L. M. & S. Rly.	2				
	£482		£21		£42

There are no recorded payments relating to the Investments Revenue Account or Final Revenue Account; and with the inclusion of the cash in hand and at the bank on the Cr. side, the two sides of the Cash Account can be totalled and finished off.

REVENUE ACCOUNTS.

(1) Trading Account.

This account is built up on the Dr. side from the six groups of expenditure explained in Chapter XI. and XII. Separate columns were provided for them in the Invoice Analysis Book, and the total of each column was posted to a special account in the Impersonal Ledger. The six accounts thus debited are now closed by a transfer to the Trading Account. The entry will be inserted on the Cr. side of these accounts " By Transfer to Trading Account," or, simply, " By Trading Account," the amount will be entered in the cash column, and both sides of the six accounts will then be totalled and ruled off.

The entries in the Trading Account will be " To Goods," " To Goods and Stock Charges," etc., as shown in the Trading

Account which is given below. The sales must, of course, also be entered in the Trading Account, on the Cr. side. The entry is derived from the Sales Account in the Impersonal Ledger. This account is closed by an entry on the Dr. side " To Transfer to Trading Account, £530," or simply " To Trading Account, £530." There is still another item to be entered on the Cr. side of the Trading Account—Stock on hand at the end of January, stated to be worth £200. This amount is entered,* the two sides of the Trading Account are totalled, and the total of the Cr. side is found to exceed the total of the Dr. side by £36. This is the surplus which in non-co-operative businesses is termed " profit," but is wrongly termed " profit " in a Co-operative Society. The amount of this surplus is entered on the Dr. side of the Trading Account and credited to the Final Revenue Account, thus completing the double entry. The following is the Trading Account when completed:—

Dr. TRADING ACCOUNT. *Cr.*

	£	s.	d.		£	s.	d.
To Goods, including Carr.	622	0	0	By Sales	530	0	0
,, Goods & Stock Charges	2	0	0	,, Stock on hand, Jan. 30th, 1926	200	0	0
,, Selling Expenses	19	0	0				
,, Delivery Expenses	5	0	0				
,, Charges for Land, Buildings, & Fixt's used in Trade	27	0	0				
,, General Charges	19	0	0				
,, Balance—Surplus, transferred to Final Revenue Account	36	0	0				
	£730	0	0		£730	0	0

In some societies it may be desired to show in the Trading Account the nature of each expense, and the amount of it, which goes to the making up of the group totals included in the Trading Account. The information is available in the Ledger Accounts, prepared as explained in Chapter XII, if the society desires to publish it and has prepared the necessary accounts.† The society may alternatively, or in addition, desire to publish a statement of expenses recorded according to their nature. This subject is dealt

* On the Cr. side. The corresponding entry is a Dr. entry, included among the assets in the Statement of Liabilities and Assets.

† A balance sheet in blank showing the details of entries under each group heading in the Trading Account is published by the Co-operative Union. See also *Standard Co-operative Book-keeping*, Part II.

with in Chapter VIII., and is further dealt with in Chapter XIV. A specimen statement, in blank, is shown in the balance sheet in blank which is included as an appendix at the end of this book.

We have dealt in these accounts with a society just commencing business, and therefore without any stock of goods on hand at the beginning of the trading period. In a subsequent trading period the society would have stock on hand at the commencement, and the Dr. side of the Trading Account for that period would commence with an entry of "Stock on hand at commencement."

(2) Investments Revenue Account.

The Ledger Accounts containing amounts that have to be posted to this account will be closed by a transfer, as were those relating to the Trading Account. They are, in the Newway Society, the Investments Revenue Charges Account and the Interest Receivable Account; and after these two accounts have been closed by transfer to the Investments Revenue Account, the latter account will read:—

Dr. INVESTMENTS REVENUE ACCOUNT. *Cr.*

	£	s.	d.		£	s.	d.
To Interest for month on Shares	2	0	0	By Interest & Dividend receivable on Share Investments	1	0	0
,, Balance (Surplus), transferred to Final Revenue Account...	1	0	0	,, Interest chargeable to Trade Account—			
				(*a*) Buildings, etc. ...	1	0	0
				(*b*) Stocks, etc.	1	0	0
	£3	0	0		£3	0	0

The balance (surplus) is inserted on the Dr. side of the Investments Revenue Account and credited to the Final Revenue Account.

(3) Final Revenue Account.

As there are no items of Final Revenue Account expenditure or income in the transactions of the Newway Society, the only items to be included in this account are the balances from the Trading Account and the Investments Revenue Account. These balances being entered on the Cr. side, the entry of the balance of the account is completed on the Dr. side preceded by the words

"To Balance Disposable carried to Disposable Balance Account, Part B." The account will therefore read:—

Dr. FINAL REVENUE ACCOUNT. *Cr.*

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
To Balance (Net Surplus) carried to Disposable Balance A/c., Part B	37 0 0	37 0 0	By Net Surplus from Trading Account...	36 0 0	
			„ Net Surplus from Investments Revenue Account	1 0 0	37 0 0
	£37 0 0	£37 0 0		£37 0 0	£37 0 0

Disposable Balance Account.

The Disposable Balance Account is not an indispensable account in the balance sheet; its functions can be performed by other accounts; but it is a convenient account for the purposes it is designed to meet. These purposes are to show the balance disposable at the end of the current period and the actual disposal of the balance that was disposable at the end of the previous trading period. The account is presented in two parts. Part A shows the disposal of the balance disposable at the end of the previous trading period, and Part B shows the figures necessary for the ascertainment of the balance disposable at the end of the current period. It will be convenient to examine Part B first. This part of the account brings together the balance of the Final Revenue Account and the balance of any undistributed surplus brought forward from the previous trading period. Beyond these items there are only two others, and these are really the same item entered on both sides, viz., share interest. This share interest has already been debited to the Investments Revenue Account, but share interest is a payment to the members of the society, and they, as owners of the business, have no right to pay themselves this interest unless there is a surplus over and above the cost of goods and expenses. In other words, share interest is a part of the surplus, just as dividends are a part of the profit in a joint stock company. It is therefore necessary on technical grounds to show this allocation of interest as a distribution of the surplus. This purpose can be best achieved by crediting to the Disposable Balance Account the amount of share interest already debited to the Investments Revenue Account and then debiting the Balance Disposable Account with the same amount. The amount has already been credited to an account "Share Interest due to Members," and this will appear as a liability in the Statement of Liabilities and Assets.

Part B of the account will therefore appear as follows:—

Dr. DISPOSABLE BALANCE ACCOUNT. *Cr.*

PART B—CURRENT PERIOD—AVAILABLE BALANCE.

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
To Appropriation for Share Interest for Half Year, as per Investments Revenue Account	2 0 0		By Net Unappropriated Balance brought forward from last Account, as per Part A	.....	
„ Balance disposable (after making appropriation for Share Interest, as per Statement of Liabilities and Assets.....	37 0 0	39 0 0	„ Balance (Surplus) from Final Revenue A/c.	37 0 0	
			„ Share Interest, as charged to Investments Revenue Account	2 0 0	39 0 0
	£39 0 0	£39 0 0		£39 0 0	£39 0 0

Recommendations are made to the members regarding the disposal of the available balance, and a copy of a suitable form of statement embodying the recommendations is given in the appendix containing a complete balance sheet in blank. After the recommendations have been approved by the members in general meeting and have been carried out, the distribution thus approved and carried out is recorded in the next balance sheet in Part A of the Disposable Balance Account, which takes the following form:—

DISPOSABLE BALANCE ACCOUNT.

PART A—DISPOSAL OF BALANCE AVAILABLE AT END OF LAST HALF YEAR.

Dr. *Cr.*

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
To Allocations—			By Balance disposable, as per last Balance Sheet....	.....	
For Distributive Societies: Divid. to Members.....	.....		„ Appropriation from—		
„ Non-memb'rs	.....		Dividend Equalisation Fund.....	.....	
Bonus to Employees ...	.....		Reserve Fund	.....	
For Productive Societies: Divid. on Purchases ...	.....				.....
„ Wages	.....				
„ Capital	.....				
*Education Fund.....	.....				
Charitable Donations ..	.....				
Special Depreciation ...	.....				
General Reserve Fund	.....				
Dividend Equalisation Fund.....	.....				
Other Allocations (to be stated)—					
.....					
.....					
„ Unappropriated Balance carried forward to Part B of Account	.....	.....			
TOTAL ..... £	.....	.....	TOTAL ..... £	.....	.....

* Where Appropriated from Trading Surplus.

Statement of Liabilities and Assets.

We have now reached the final account of the balance sheet, viz., the Statement of Liabilities and Assets. The Ledger Accounts which supply the data for this statement are not closed by a transfer, as were the accounts that appear in the Trading Account. Instead, the accounts are balanced, the balance is inserted on the lesser side and then carried down to the opposite side to serve as the initial entry for the subsequent period. These balances represent either assets or liabilities and may be incorporated in the Statement of Liabilities and Assets in the form recommended in the Standard Balance Sheet. The whole of the items that may occur in a large society have not occurred in the Newway Society, and for the information of the student a form of Statement of Liabilities and Assets, including all probable items, is given in the appendix containing a complete balance sheet in blank. The Statement of Liabilities and Assets of the Newway Co-operative Society is given at the end of this paragraph. It will be noted that the stock on hand, valued at £200, which was credited to the Trading Account, is now debited to the Statement of Assets.

One matter may trouble the student. The Dr. items appearing in the Revenue Accounts appear on the left side of the account and the Cr. items on the right side; but the Dr. items—the Assets—appearing in the Statement of Liabilities and Assets appear on the right side and the Cr. items—the Liabilities—appear on the left side.

NEWWAY CO-OPERATIVE SOCIETY LIMITED.

STATEMENT OF LIABILITIES AND ASSETS, AS AT JANUARY 30TH, 1926.

LIABILITIES.	£ s. d.	£ s. d.	ASSETS.	£ s. d.	£ s. d.
1. Shares—			1. Stocks—		
Withdrawable Shares	520 0 0	520 0 0	(*a*) Trading Stocks.	200 0 0	
			(*b*) Expenses Stocks	.....	200 0 0
2. Loans, etc.—Nil	.....		2. Property—		
			Land and Buildings used in Trade.....	199 0 0	
3. Various Liabilities—			Fixtures and Fittings	10 0 0	209 0 0
Creditors for Goods	140 0 0				
Other Amounts owing	6 0 0		3. Investments—		
Amount appropriated for Share Interest not yet credited to Share Capital Account..	2 0 0	148 0 0	Shares— I. & P. Societies..	100 0 0	100 0 0
4. Reserve & Insurance Funds—Nil	.....		4. Various Assets—		
			Accounts owing to Society for Goods	.....	
			Other Amounts owing to Society	.....	
Total of all preceding Items	668 0 0	668 0 0	Interest accrued ...	1 0 0	1 0 0
Balance disposable, as per Disposable Balance Account, Part B, carried to next Half Year ..	37 0 0	37 0 0	Total of all preceding Items	510 0 0	510 0 0
			Cash at Bank	153 0 0	
			Cash in Hand.....	42 0 0	195 0 0
	£705 0 0	£705 0 0		£705 0 0	£705 0 0

With the completion of the Statement of Liabilities and Assets the whole of the accounts essential to the balance sheet have been explained and the balance sheet is complete. In order that the student may have a complete view of the Ledger Accounts and the balance sheet of the Newway Society at the end of January, when the Ledger Accounts have been balanced, the Ledger Accounts in their final form and the complete balance sheet of the Newway Society are given in an appendix.

SUMMARY.

The Trial Balance is a summary in Dr. and Cr. columns of the Ledger Account totals (Dr. and Cr.), or of the balances of the Ledger Accounts. If every Dr. entry has had a corresponding Cr. entry, and if every Cr. entry has had a corresponding Dr. entry, the total of the Dr. entries and the total of the Cr. entries should agree. If they do not agree, it is proof that an error has been made in posting the items to the Ledgers. Even if the Dr. and Cr. columns agree, it is not certain there has been no error. If an item has been entered on the right side of the account but in the wrong account, the error will not be disclosed by the trial balance.

A trial balance can be prepared before the adjustments are made or after the adjustments have been made. It is well to prepare one before the adjustments are made, as mistakes made in the adjustments are then isolated. After the adjustments have been made, a further trial balance incorporating these adjustments can be prepared if thought desirable. A trial balance is often used in Book-keeping exercises for students to test their ability to make out the accounts of the balance sheet from the data therein provided.

Two kinds of trial balance can be prepared: a full trial balance and a skeleton trial balance. The full trial balance contains the Dr. and Cr. totals of all the Ledger Accounts (including the Cash Account and the Bank Account in the Cash Book), whether there is an outstanding balance or not. The skeleton trial balance contains the balances of those accounts in which the Dr. and Cr. sides do not agree in total.

Another modification of the trial balance is to include for certain classes of Ledger Account only a summarised total, instead of the totals or balances of the individual accounts. Thus the balances of the Share Ledger Accounts can be totalled and entered as one item—" Sundry Shareholders," and the accounts of the persons to whom money is owing for goods supplied, i.e., the creditors' accounts, can be summarised and entered as " Sundry Creditors."

The balance sheet contains three essential accounts: the Cash Account, the Revenue Account (which is sub-divided into Trading Account, Investments Revenue Account, and Final Revenue Account), and Statement of Liabilities and Assets. Another account usually included in the balance sheet is the Disposable Balance Account, which is divided into two parts. Part A contains particulars of the distribution of the balance available for distribution at the end of the previous trading period; and Part B includes the undistributed balance left after the distribution took place at the end of the previous trading period, and the balance of the surplus transferred from the Final Revenue Account for the current period. It also includes share interest payable to members, as this item is, legally, a distribution of the surplus. The amount of share interest is entered on both sides of Part B to maintain the balance of the account. Where a society has a separate educational fund, an account of this fund is also included as a separate account in the balance sheet.

The Cash Account included in the balance sheet is built up by summarising the various classes of receipts and payments under specified headings given in the Standard Balance Sheet, as outlined in one of the appendices. The balances of cash in hand and at the bank as shown in the Cash Account should agree with the balances of cash in hand and at bank as shown in the Cash Book.

The Trading Account is built up by transferring to it the balances of the six Impersonal Ledger Accounts relating to (1) Goods; (2) Goods and Stock Charges; (3) Selling Expenses; (4) Delivery Expenses; (5) Land, Buildings, and Fixtures Charges; and (6) General Charges; and also the balance of the Sales Account, which, also, is an Impersonal Ledger Account. To these are added stock on hand at commencement of the trading period (on Dr. side) and stock on hand at the end of trading period (on the Cr. side). The difference between the two sides is the trading surplus or deficiency. It is inserted on the lesser side (and carried to the opposite side of the Final Revenue Account), and the two sides of the Trading Account are then totalled and ruled off.

The Investments Revenue Account is built up by transferring to it the balances of the Investments Revenue Charges Account and the Interest Receivable Account, which are closed by the making of these transfers. The Investments Revenue Account is balanced and ruled off, the balance being transferred to the Final Revenue Account.

The Final Revenue Account is built up by the transfers to it (Cr. side if they are surpluses) of the balances of the Trading Account and Investments Revenue Account. Any debits that may have to go in this account are inserted, the account is balanced, and the balance is carried to the Disposable Balance Account, Part B.

The Disposable Balance Account has been explained in an earlier part of this summary. The most important point to be emphasised is the inclusion of share interest on both sides of the account, for reasons given above.

The Statement of Liabilities and Assets is a summary of all the Ledger balances (including the balance of the Balance Disposable Account) divided into assets and liabilities. Dr. balances in the Ledger are assets, whilst Cr. balances in the Ledger are liabilities. Stock on hand, which was a Cr. item in the Trading Account, is a Dr. item (and therefore an asset) in the Statement of Liabilities and Assets, and the double entry for this item is thus achieved by these two entries. Ledger balances appear in the Revenue Accounts on the same side as that upon which they appear in the Ledger or trial balance, and those which appear in the Statement of Liabilities and Assets appear on the opposite side from that upon which they appear in the Ledger or trial balance. Thus Share Capital appears on the Cr. side (right side) of the Share Ledger and trial balance, but on the Liabilities side (left side) of the Statement of Liabilities and Assets; and Land and Buildings appear on the Dr. side (left side) of the Ledger and trial balance, and on the assets side (right side) of the Statement of Liabilities and Assets; whilst Goods, Selling Expenses, and Share Interest, which all appear on the Dr. side of the Ledger Accounts and trial balance, appear also on the Dr. side in the Revenue Accounts.

QUESTIONS AND EXERCISES.

1. What is a Trial Balance ? What useful purposes does a Trial Balance serve ?

2. What is the difference between a Full Trial Balance and a Skeleton Trial Balance ? Prepare a Trial Balance in full and skeleton forms, inserting about ten items to illustrate your answer.

3. In which column of the Trial Balance would you expect to find the following items, and why ?—

	£
Cash in hand	20
Owing to C.W.S. Ltd.	50
Sales	500
Purchases	600
Selling expenses	50
Members' share capital	1000
Stock on hand at beginning of period	200

4. On which side of (*a*) the Revenue Accounts and (*b*) the Statement of Liabilities and Assets would you expect to find items occurring in the Trial Balance ?

5. Put the following Ledger balances into Trial Balance form:—

	£
Purchases	600
Sales	800
All expenses	300
Stock on hand at commencement	200
Land, buildings, and fixtures	600
Members' share capital	700
Cash in hand	100
Sundry creditors	300

6. From the Trial Balance prepared in answering Question 5, prepare a Trading Account and Statement of Liabilities and Assets. Assume stock on hand at end of period to be worth £400.

7. In which accounts is members' share interest entered ? Why is it entered in these accounts ?

8. Prepare a Disposable Balance Account (Parts A and B), inserting any figures you may care to select, and indicate the source from which they would be derived in practice.

9. Prepare a Cash Account showing receipts and payments under the group headings of the Standard Balance Sheet. Insert figures of your own choice (about ten items in all on each side), and balance the account.

10. Prepare a Statement of Liabilities and Assets from the following items:—

	£
Land and buildings	1400
Cash in hand	200
Cash at bank	600
Share capital	2000
Loan capital	500
Share investment—C.W.S.	500
Share investment—L. M. & S. Railway	200
Loan investment—C.W.S.	200
Sundry creditors	200
Share interest due to Members	50
Disposable balance	600
Stock of goods on hand	400
Reserve fund	250
Debts owing to society	100

11. Prepare an Investments Revenue Account from the following data, and balance it.—

	£
Members' share interest	200
Loan interest	50
Savings-bank interest	100
Interest on investments	180
Interest charged to trade departments for—	
(*a*) Land, buildings, and fixtures	80
(*b*) Stock	60
Bank interest receivable	40

12. From the following Trial Balance make out a Trading Account, Investments Revenue Account, Final Revenue Account, Disposable Balance Account, and Statement of Liabilities and Assets, after providing for share interest due of £50.

	Dr.	*Cr.*
	£	£
Stock on hand at commencement	100	...
Purchases	800	...
Sales	...	900
Goods and stock charges	5	...
Selling expenses	60	...
Delivery expenses	5	...
Land, buildings, and fixtures charges	14	...
General charges	10	...
Share capital	...	1000
Loan capital	...	100
Cash in hand	50	...
Cash at bank	156	...
Sundry creditors	...	200
Interest owing	6	...
Interest receivable	...	6
Investment in C.W.S.	250	...
Land and buildings	800	...
Disposable Balance Account—		
Undistributed surplus brought forward	...	50
	£2256	£2256

Stock on hand at end of period, £200.

REVISION QUESTIONS AND EXERCISES ON CHAPTERS VII. TO XIII.

1. In what respects does an ordinary Purchases Book differ from an Invoice Analysis Book? From what documents are the entries for these books derived?

2. What is an invoice, and in what respects does it differ from a contract note?

3. Prepare an invoice recording the sale of six pieces of 36in. cloth, with a total length of 380 yards, sold by Brown and Co., Green Street, London, to Mayfair Co-operative Society, Barnbrook, at 2s. 7d. per yard, and forwarded per L. M. & S. Railway Co. in one bale carriage paid.

4. Describe the process of checking an invoice.

5. Describe the process of entering a double-column Purchases Book from a series of invoices.

6. Prepare a double-column Purchases Book from the following items:—

		£	s.	d.	£	s.	d.
Jan. 1.	—Jones and Co.—						
	3 pieces of cloth, 76yds., @ 2s. ...	7	12	0			
	6 pieces of cloth, 240yds., @ 2s. 1d.	25	0	0	32	12	0
,, 3.	—Smith and Co., 2 doz. hats, @ 5s. 6d.	6	12	0	6	12	0
,, 6.	—Brown and Co., 6 pieces of cloth, 180yds., @ 4s.	36	0	0	36	0	0
,, 8.	—Green and Co., 10 pieces of cloth, 600yds., @ 2s.	60	0	0	60	0	0

7. What is the relationship of the Purchases Book to the Ledgers? Describe the posting of the individual items and the monthly total of the Purchases Book to the Ledgers.

8. Having prepared the Purchases Book entries asked for in Question 6, post the items and the total purchases to appropriate Ledger Accounts, and show the Ledger Accounts as they would appear with these entries included.

9. What are the advantages gained by recording the purchases and expenses in an Invoice Analysis Book?

10. Prepare an Invoice Analysis Book with three analytical columns for Goods, Expenses, and Capital Expenditure, and enter the following items:—

			£
Jan. 1.	—C.W.S. Ltd.....	Groceries.....	200
,, 2.	—C.W.S. Ltd.....	Books and stationery	20
,, 2.	—Green and Brown	Flour	20
,, 3.	—C.W.S. Ltd.....	New scales.....	5
,, 3.	—L. M. & S. Railway Co. ..	Inward carriage	2
,, 4.	—Staff	Wages	8
,, 4.	—Members	Share interest	20
,, 5.	—Ajax Machinery Co.	Repairs	10
,, 5.	—Corporation	Rates	5

11. What is a "dummy" invoice? For what purpose may it be employed?

12. To what Ledger Accounts are individual items and the column totals of the Invoice Analysis Book posted?

13. Explain the difference between the nature and the function of expenditure.

14. Explain the difference between Capital Expenditure and Revenue Expenditure.

15. In what circumstances would the following be (*a*) Revenue Expenditure. and (*b*) Capital Expenditure ?

(1) Wages paid to a joiner.
(2) Purchase of a motor-cycle.

16. Give three examples of Revenue Expenditure and three examples of Capital Expenditure.

17. Show, by an example in each case, that expenditure of different natures may be expenditure for the same function, and that expenditure of one nature may be for different functions.

18. Why is functional classification of expenditure desirable in a Co-operative Society ?

19. What are the principal three classes of Revenue Expenditure, and in which accounts are they found in the balance sheet ?

20. Prepare a list, under group headings, of the expenses usually found in the Investments Revenue Account of a Co-operative Society.

21. Prepare a list, under their group headings, of the items of expense recorded in the Trading Account of a distributive department.

22. The six group headings adopted for the Trading Account of a distributive department are functional headings. Explain the difference of function of the different groups of expenditure recorded under them.

23. Under which functional headings may the following items have to be classified :—

(1) Insurance.
(2) Wages.
(3) Interest.

24. Under what functional headings would you expect to find the following items :—

Ground rents.
Printing and stationery.
Interest on credit accounts.
Cleaning, lighting, and heating.
Shop wages.
Committee expenses.

25. Prepare the rulings of a page of the Invoice Analysis Book as recommended in Chapter VIII.

26. Prepare an Invoice Analysis Book as for Question 25 and enter the following items, afterwards totalling the columns :—

	£
Jan. 1.—C.W.S. Ltd.—Goods	200
,, 1.—Shop wages	5
,, 1.—Repairs	10
,, 1.—New machinery	100
,, 3.—Ground rent	5
,, 3.—Interest on stocks	2
,, 3.—Interest on land, buildings, and fixtures	2
,, 3.—Telephone charges	1
,, 5.—Committee fees	4
,, 5.—Office wages	5
,, 5.—Interest on members' share capital	10
,, 5.—C.W.S. Ltd.—Goods	100
,, 6.—L. M. & S. Railway Co.—Carriage inwards	4
,, 6.—W. Ryde—Cartage of goods to members	5
,, 6.—Depreciation of land, buildings, and fixtures	5

27. Post the totals of the columns of the Invoice Analysis Book, prepared in answering Question 26, opening the necessary Ledger Accounts.

28. What is a "Statement of Trade Expenses recorded according to their nature," and from what source are the entries derived ?

29. How may the "Statement of Expenses recorded according to nature" be compiled ?

30. What is a Sales Day Book ? Prepare the rulings of a Sales Day Book and enter six items of your own selection.

31. Post to appropriate Ledger Accounts the individual items and total of the Sales Day Book prepared in answering Question 30.

32. From what sources may the Sales Day Book be entered up ?

33. Why is it unnecessary to keep a Sales Day Book in a retail Co-operative Society trading for cash ? How is the Sales Account in the Ledger compiled in such a society ?

34. What is a Statement, or Statement of Account ? When is it sent out and what does it contain ? What useful purpose does such a Statement serve ?

35. Prepare a Statement containing six items, choosing your own heading, dates, and amounts.

36. When a shopman receives cash for a variety of purposes, what does he forward to the office along with the cash ? Prepare a copy of a suitable document for the purpose.

37. How are the two sides of the transactions recorded in the case of cash sales ?

38. Prepare a suitable Statement (including figures of your own selection), adjusting sales and cash for a society allowing credit.

39. What are Returns, and how are they dealt with in the books of a society ?

40. What are (*a*) Credits; (*b*) Credit Notes ? How are they dealt with in the books of a society ?

41. Prepare a Credit Note, employing names and a suitable amount of your own choice.

42. What is Discount ? Explain the difference between Trade Discount, Ordinary Discount, and Prompt Cash Discount.

43. What is a Cash Book, and what entries are made in it ?

44. Rule a folio of a three-column Cash Book and enter six items on each side.

45. Mention five principal classes of receipt and four principal classes of payment recorded in the Cash Book.

46. How is the Cash Book balanced ? Prepare a Cash Book with four items on each side (including two *contra* items), and balance the cash and bank columns.

47. How may discounts allowed on purchases be treated by a Co-operative Society ? Which method of treatment do you recommend, and why ?

48. Can the total of either of the columns on the Cr. side of the Cash Book exceed the total of the corresponding column on the Dr. side ? Give reasons for your answer.

49. What is a Bank Overdraft ? Where are the following items entered in the Cash Book: (*a*) Bank charges: (*b*) Bank interest ?

50. How is the double entry of cash receipts and cash payments achieved ? How is the double entry of discount items in the Cash Book achieved ?

51. What is Petty Cash ? What is the Imprest system of Petty Cash records ?

52. Make out a Petty Cash Account, including one receipt and six payments.

53. What are the most important three books of primary entry, and what classes of entry are included in each of them ?

54. Journalise the following adjustments for the end of the trading period :—

Rates paid in advance, £20.
Wages owing and not entered, £5.
Depreciation for a half year on buildings, at the rate of 2½ per cent per annum, the buildings being valued at £400.
Interest (estimated at £50) on members' share capital.
Interest chargeable on buildings £5, and on stock £3.

55. In which columns of the Invoice Analysis Book are the following items entered in a retail distributive society's accounts ?

Interest on buildings.
Interest on stocks.
Carriage inwards.
Office wages.
Repairs to shop.
Electricity charges.

56. In which Balance Sheet Account are the following items likely to be found ?

(1) Collective life assurance premium.
(2) Interest on members' share capital.
(3) Interest on share investment in the C.W.S.
(4) Interest charged to trading departments.
(5) Interest on savings-bank deposits.

57. For what classes of entry are the following Ledgers employed ?

Personal Ledger.
Share Ledger.
Impersonal Ledger.
Investments Ledger.

Give an example of one entry in each Ledger, to show that you understand the difference between them.

58. From what sources are the entries in the Personal Ledger derived ? Prepare a Personal Ledger Account, enter two items on each side, and balance the account.

59. To which side of the Ledger are the items in the Cash Book posted ? Where would the following items be posted from the Cash Book: Share capital received; bank charges; share investments ?

60. What Ledger Accounts are opened to receive the totals of the columns in the Invoice Analysis Book ? Where are the balances of these accounts to be found in the balance sheet ?

61. Prepare a Trading Account from the following items:—

	£
Goods on hand at end of period	300
Goods on hand at beginning of period	200
Purchases	600
Sales	800
Goods and stock charges	20
Selling expenses	90
Delivery expenses	20
Land, buildings, and fixtures charges	40
General charges	30

After completing the above-mentioned account, prepare a second Trading Account with stock on hand at end of period valued at £150, the remaining items being the same as in the first Trading Account.

62. On which side of the Trading Account is the balance of the Trading Account entered? To which account, and which side of the account, is this balance carried?

63. Make out a specimen

(1) Shareholder's Ledger Account,
(2) Creditor's Account,
(3) Selling Expenses Account,
(4) Investments Ledger Account,

and insert one item in each account.

64. What is a Trial Balance and how does it differ from a balance sheet?

65. How is a Trial Balance prepared and what useful purposes does it serve?

66. Explain how you would prepare a Trial Balance incorporating adjustments.

67. Arrange the following items in Trial Balance form:—

	£
Purchases	500
Sales	800
Expenses	200
Stock to begin	200
Share interest (Dr. item)	50
Land and buildings	600
Fixtures	100
Cash in hand	20
Interest Receivable Account	10
Share investments	400
Members' share capital	1200
Reserve fund	60

68. How far is the agreement of the totals of the columns of the Trial Balance a proof of the accuracy of the accounts?

69. What are the three essential accounts of the balance sheet, and what is the name of the fourth account that is usually added? One of these three essential accounts is usually divided into three accounts. Which account is thus divided, and what are the names of the accounts into which it is divided?

70. What is the Cash Account as included in the balance sheet? Under what group headings are the receipts and payments entered?

71. Prepare a Cash Account as included in the balance sheet, and enter not less than one, and not more than three, items under each group, or class heading.

72. Prepare an Investments Revenue Account from the following data:—

	£
Interest on Members' shares	200
Interest on loans	30
Interest on savings bank deposits	20
Interest on C.W.S. shares	120
Interest on C.W.S. loans	10
Interest charged to trading departments—	
(*a*) On land and buildings	80
(*b*) On stocks	60

73. Prepare a Final Revenue Account, including a balance from Trading Account of £180, and a balance from Investments Revenue Account of £20. Balance the account, and indicate the account to which the balance would be carried.

74. Prepare a Disposable Balance Account, Part A, which includes (1) Disposable balance of £500; (2) Dividend to members, £300; (3) Allocation to General Reserve Fund, £100; (4) Allocation to Dividend Equalisation Fund, £50; and the balance carried forward to next account.

75. Prepare a Disposable Balance Account, Part B, with a balance brought forward of £50; Balance from Final Revenue Account, £800; Members' share interest, £1,000. Balance the account, and indicate the account to which the balance would be carried.

76. Prepare a "Proposed Disposal of Available Balance" Account (explained in Chapter XIV.), showing disposable balance of £800, appropriation from reserve fund of £200, dividend to members of £990, and the amount carried forward of £10. What is the relationship of this account to Part A of the Disposable Balance Account?

77. What is the difference between Part A and Part B of the Disposable Balance Account?

78. Prepare a Statement of Liabilities and Assets, showing the group headings and not less than two entries under each heading.

79. On which side of the Statement of Liabilities and Assets would you expect to find the following items, and why?

Reserve fund, £500.
Adverse balance (accumulated losses), £200.
Owing by members for goods, £300.
Share interest due to members, £50.
Income tax reclaimable, £20.

80. A society's members owe £200 for goods, and the society has created a bad debts reserve of £40 against these debts. How should the item be entered in the balance sheet, and in which account should it be entered?

CHAPTER XIV.

VARIOUS MATTERS RELATING TO THE ACCOUNTS.

THERE still remain several matters which, although not related to one another, are all related to the accounts which it is the purpose of this book to explain; and these matters will form the subject of consideration in this chapter.

STATEMENT OF EXPENSES RECORDED ACCORDING TO THEIR NATURE.

As mentioned in Chapter VIII. (pages 79 and 80), societies often wish to submit in their balance sheet a Statement of Trading Expenses, in which the expenses are recorded according to their nature. An example of such a statement is to be found in Appendix II., where a complete balance sheet on Standard Balance Sheet lines is given, and in the Co-operative Union booklet, containing a specimen balance sheet and entitled "Standard Balance Sheet: Standard Accounts." It is now our purpose to explain the preparation of the statement. The expenses relating to the Investments Revenue Account are shown in that account (i.e., the Investments Revenue Account) in the balance sheet. They need not be included in the statement we are now preparing, which, for this reason, can be restricted to Trading Account Expenses.

The Basis of the Statement.

The basis of the Statement of Trading Account Expenses is the entries in the Invoice Analysis Book. In this book, a column indicates the nature of each item of expenditure; and the items may be posted from the Analysis Book to Impersonal Accounts, which can be opened for wages and other expenses in a special Ledger kept for the purpose, or in the Impersonal Ledger, in which are kept the Impersonal Accounts for the expenses recorded

according to function. Taking the items shown in the Invoice Analysis Book on pages 120 and 121, the following accounts would be opened:—

Wages.	Insurance.
Painting and Repairs.	Telephone Charges.
Printing and Stationery.	Bank Charges.
Carriage and Cartage.	Ground Rent.
Cleaning, Lighting, and Heating.	Depreciation.
	Interest.

The Preparation of the Statement.

The amounts of expenditure under these headings would be posted from the separate items in the Invoice Analysis Book to the Dr. side of their respective accounts in the Ledger. The balances of these Ledger Accounts would be transferred to the Statement of Expenses, which, in the case of the Newway Society, would appear as shown later in this section. The total expenses thus recorded should agree with the total of the five columns recording Trading Expenses in the Invoice Analysis Book. As pointed out in Chapter VIII. (page 80), the posting of these items to Ledger Accounts can be avoided in building up the Expenses Statement by making a summary on paper, using the adding machine for the quicker totalling of the amounts of expenditure of each nature.

The Ledger Accounts.

If we assume that the Newway Society desires to post the items to Ledger Accounts, these accounts, when completely posted and after the balances have been transferred to the Statement of Trading Expenses, would appear as follows:—

Dr. WAGES ACCOUNT. *Cr.*

			£ s. d.			£ s. d.
Jan. 13	To Shop Staff	I.A.B. 1	4 0 0	Jan. 30	By Transfer to Expenses Statement	26 0 0
,, 20	,, ,, ,, ...	,,	4 0 0			
,, 27	,, ,, ,, ...	,,	5 0 0			
,, 30	,, ,, ,, ...	,,	8 0 0			
,, 30	,, ,, ,, ...	,,	5 0 0			
		£	26 0 0			£ 26 0 0

Dr. PAINTING AND GENERAL REPAIRS ACCOUNT. *Cr.*

			£ s. d.			£ s. d.
Jan. 13	To Brush & Co.	I.A.B. 1	20 0 0	Jan. 30	By Transfer to Expenses Statement	20 0 0

Dr. PRINTING AND STATIONERY ACCOUNT. *Cr.*

			£ s. d.			£ s. d.
Jan. 16	To C.W.S. Ltd.	I.A.B. 1	10 0 0	Jan. 30	By Transfer to Expenses Statement	10 0 0

Dr. CARRIAGE AND CARTAGE ACCOUNT. *Cr.*

			£ s. d.			£ s. d.
Jan. 28	To A. Smith	I.A.B. 1	5 0 0	Jan. 30	By Transfer to Expenses Statement	5 0 0

Dr. INSURANCE ACCOUNT. *Cr.*

			£ s. d.			£ s. d.
Jan. 28	To Co-op. Insur'ce Society Ltd...	I.A.B. 1	3 0 0	Jan. 30	By Transfer to Expenses Statement	3 0 0

Dr. CLEANING, LIGHTING, AND HEATING ACCOUNT. *Cr.*

			£ s. d.			£ s. d.
Jan. 30	To Corporation.....	I.A.B. 1	2 0 0	Jan. 30	By Transfer to Expenses Statement	2 0 0

Dr. TELEPHONE CHARGES ACCOUNT. *Cr.*

			£ s. d.			£ s. d.
Jan. 30	To Post Office.....	I.A.B. 1	1 0 0	Jan. 30	By Transfer to Expenses Statement	1 0 0

Dr. BANK CHARGES ACCOUNT. *Cr.*

			£ s. d.			£ s. d.
Jan. 30	To Expenses Adj....	I.A.B. 1	1 0 0	Jan. 30	By Transfer to Expenses Statement	1 0 0

Dr. RENTS, RATES, AND TAXES ACCOUNT. *Cr.*

			£ s. d.			£ s. d.
Jan. 30	To Expenses Adj...	I.A.B. 1	1 0 0	Jan. 30	By Transfer to Expenses Statement	1 0 0

Dr. DEPRECIATION ACCOUNT. *Cr.*

			£ s. d.			£ s. d.
Jan. 30	To Expenses Adj...	I.A.B. 1	1 0 0	Jan. 30	By Transfer to Expenses Statement	1 0 0

Dr. INTEREST CHARGES ACCOUNT. *Cr.*

			£ s. d.			£ s. d.
Jan. 30	To Expenses Adj...	I.A.B. 1	1 0 0	Jan. 30	By Transfer to Expenses Statement	2 0 0
„ 30	„ „ „ ...	„	1 0 0			
			£2 0 0			£2 0 0

The Statement of Expenses to which the balances of these accounts have been transferred would appear as follows:—

TRADE EXPENSES FOR MONTH.

	£	s.	d.
Wages	26	0	0
Painting and General Repairs	20	0	0
Printing and Stationery	10	0	0
Carriage and Cartage	5	0	0
Insurance	3	0	0
Cleaning, Lighting, and Heating	2	0	0
Telephone Charges	1	0	0
Bank Charges	1	0	0
Ground Rent	1	0	0
Depreciation	1	0	0
Interest	2	0	0
	£72	0	0

The Expenses Allocated according to Function.

If it is desired to show how these expenses are allocated to the Trading Account under the various class headings employed in the balance sheet, the data for building up an account on the following lines appear in the Invoice Analysis Book, and the totals of the last five columns in the following statement should agree with the corresponding columns in the Invoice Analysis Book.

TRADE EXPENSES FOR MONTH.

Allocated according to function.

Item.	Total.	Goods and Stock Charges.	Selling Expenses.	Delivery Expenses.	Land, Buildings, and Fixtures Charges.	General Charges.
	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
Wages	26 0 0	.....	18 0 0	.....	.....	8 0 0
Painting and Repairs	20 0 0	.....	.....	.....	20 0 0	.....
Printing and Stationery	10 0 0	.....	.....	.....	.....	10 0 0
Carriage and Cartage	5 0 0	.....	.....	5 0 0	.....	.....
Insurance	3 0 0	1 0 0	.....	.....	2 0 0	.....
Cleaning, Lighting, & Heating	2 0 0	.....	.....	.....	2 0 0	.....
Telephone Charges	1 0 0	.....	1 0 0	.....	.....	.....
Bank Charges	1 0 0	.....	.....	.....	.....	1 0 0
Ground Rent	1 0 0	.....	.....	.....	1 0 0	.....
Depreciation	1 0 0	.....	.....	.....	1 0 0	.....
Interest	2 0 0	1 0 0	.....	.....	1 0 0	.....
	72 0 0	2 0 0	19 0 0	5 0 0	27 0 0	19 0 0

ADJUSTMENTS BEFORE AND AFTER MAKING OUT THE BALANCE SHEET.

In Chapter XI. an explanation was given of adjustments, why they are necessary, and how they are made. We followed them to the Ledger stage, and then to the balance sheet stage. It is necessary now to recognise that these adjustments are of two classes.

The Two Classes of Adjustment.

The first class comprises definite ascertainable charges which, when made, are done with and do not affect future trading periods. The depreciation charge (items 7 and 8, page 118) was such a charge. It was the charge for the month of January. The Trading Account was debited with the amount of the charge, and the Land, Buildings, and Fixtures Account was credited with the amount. The matter is closed. When the depreciation charge is ascertained for the next trading period, the calculation will be from January 31st. Items 1 and 2 for share interest due to members also fall into the same class if the amount is the actual, and not an estimated, amount for the period. If it is an estimated amount it will fall into the second class, which will be explained later. Items 9, 10, 11, and 12 (interest on land and buildings and on stocks) also fall into the first class.

The second class comprises items that are estimated and for which there will be a definite charge or credit forthcoming at some future date. The interest on the investment in the C.W.S. Share Account (items 3 and 4, page 118) is an example of this second class. It was pointed out (pages 116 and 117) that at the end of a definite period the interest for the whole period will be credited to the society by the C.W.S. When that date arrives it will be simpler to take the full amount of interest to the credit of the society in the Interest Receivable Account and debit the amount to the C.W.S., who will add it to one of the society's accounts. Unless the provisional credit of £1 which was taken into the account for January is allowed for by a deduction from this full amount the society will take credit for £1 too much, and will debit the C.W.S. with £1 too much.

Treatment of the Second Class of Adjustment.

The simplest method of dealing with such items is to reverse the entries which were made in the Journal when the adjustment at the end of January was being effected. This is done in the Journal as follows:—

		£ s. d.	£ s. d.
Feb. 1.—Interest Receivable Account	*Dr.*	1 0 0	
Accrued Interest Account (C.W.S. Interest)	*Cr.*		1 0 0

In order to continue and clarify the explanation and the effect upon the accounts, let it be supposed that the Newway Co-operative

Society next makes up its accounts at the end of June, when the C.W.S. credits the society's Share or Loan Account with the £5 share interest due up to date. The Journal entries given above having been posted to their respective Ledger Accounts, the Interest Receivable Account will show an item on the Dr. side for £1, and the Accrued Interest Account will show (1) an item of £1 on the Dr. side, which was an outstanding balance at the end of January; and (2) an item of £1 on the Cr. side, posted from the Journal entry given above. There will be no other entries referring to share interest in the Ledger at this stage. If we treat the item of £5 for interest due from the C.W.S. as a Journal transaction, we shall debit the C.W.S. share or loan investment with £5 and credit the amount to the Interest Receivable Account, which will now show a debit entry of £1 and a credit entry of £5; and if there were no further entries in this account for the period, there would be a balance of £4 to be transferred from the Interest Receivable Account to the Investments Revenue Account in the balance sheet for the period February 1st to June 30th. This amount of £4 would be the correct amount for the period. The following would be the Ledger Accounts at the end of June in the circumstances suggested:—

Dr. ACCRUED INTEREST ACCOUNT. *Cr.*

		£	s.	d.			£	s.	d.
Jan. 30	To Balance* brot. down	1	0	0	Feb. 1	By Int. Receivable Account...	1	0	0

* See pages 137 and 154, and completed Ledger Accounts in Appendix I.

Dr. INTEREST RECEIVABLE ACCOUNT. *Cr.*

		£	s.	d.			£	s.	d.
Feb. 1	To Accrued Int. Account	1	0	0	June 30	By C.W.S. Share Investm't A/c. (C.W.S. Ltd., Share Interest)	5	0	0
June 30	,, Balance carr. to Inv. Rev. Account	4	0	0					
		£5	0	0			£5	0	0

In this way the correct charge for the period to June 30th is carried to the accounts for that period.

If the members' share interest (items 1 and 2, page 118) is merely estimated and not calculated, ready to be added to each member's account when the proposed disposal of surplus is approved by the members, it should be treated in the same manner as the C.W.S. share interest, i.e., by reversing the Journal and Ledger

entries made at the end of January, and entering the correct charge when ascertained. The entries would be:—

	£ s. d.	£ s. d.
Feb. 1.—Share Interest due to Members .....*Dr.*	2 0 0	
Investments Revenue A/c. Charges....*Cr.*		2 0 0

The correct charge would then be debited to the Investments Revenue Charges and credited to the members. If it were, say, £2. 2s., the entry would be:—

	£ s. d.	£ s. d.
Investments Revenue Charges.....*Dr.*	2 2 0	
Members, for Share Interest.....*Cr.*		2 2 0

This would leave a balance of 2s. in each account, which would be correct—an undercharge of 2s. on the January account to be added to the charge for the next period.

Items 5 and 6, page 118 (ground rent) also fall into the second class, for no account had been received for this charge, which was estimated. The correct Journal entries are:—

	£ s. d.	£ s. d.
Feb. 1.—Accounts owing.....*Dr.*	1 0 0	
Land, Buildings, and Fixtures Charges (Ground Rent).....*Cr.*		1 0 0

When the account is received from the landlord at the end of the half year, the Land, Buildings, and Fixtures Charges will be debited with the full amount, which, with the £1 set-off against it, will be the correct charge for the period, and the landlord will be credited with the full amount.

Items 13 and 14 (wages due, not paid) also fall into the second class, for the charge will not be definite so far as the records are concerned until the wages are paid, when the amount will be entered in the next trading period through the medium of a dummy invoice in the Invoice Analysis Book. The correct Journal entries to reverse the original entries are:—

	£ s. d.	£ s. d.
Accounts owing .....*Dr.*	5 0 0	
Selling Expenses (Shop Wages) .....*Cr.*		5 0 0

and these will be posted to the correct accounts.

Those Journal entries given above which reverse entries previously made in the Invoice Analysis Book, must also be entered in the Invoice Analysis Book as credits (say, in red ink) and deducted from the totals at the end of the next trading period, thus giving the correct charge for the period. The Accounts Owing Account will be closed after the foregoing entries have been made.

Among the items for which adjustments have commonly to be made, in addition to those already explained in Chapter XI., are rates paid in advance, income tax deducted from interest receivable

by societies and reclaimable by them, and dividend on purchases made from the Wholesale Society. The student should be familiar with the Journal and Ledger entries required for the adjustments to which these items give rise.

DEPRECIATION.

The subject of depreciation was mentioned in Chapter V. (pages 40 and 41), and the entries for the depreciation charge were explained in Chapter XI. (pages 117 and 118) and Chapter XII. (pages 134 and 136); but a fuller explanation of depreciation is required.

Causes of Depreciation.

It is common knowledge that buildings, fixtures, machinery, and rolling stock wear out and get out of date, so that their value declines from year to year.

The two main causes of depreciation in values are (1) obsolescence, and (2) wear and tear. Obsolescence is a general name given to the changes which render an asset out of date. Buildings obviously become less efficient as improvements take place in the planning and equipping of new buildings, thus rendering older buildings, even if weather-proof, etc., less effective in competition with new ones. Every prudent business man therefore makes allowances for this declining value, and the allowance that is made is known as a depreciation charge. The fall in market value is the measure of the actual depreciation, but the allowance for depreciation, i.e., the depreciation charge, may be greater or less than the actual depreciation. Every prudent business man errs on the side of safety and makes an allowance in excess of the actual depreciation.

Obsolescence.

Fixtures become out of date even more rapidly than buildings; and for this reason a larger allowance is usually made for the depreciation of fixtures than for the depreciation of buildings. Machinery also grows old; and it may at any moment be superseded by new machinery embodying an invention which makes older machinery obsolete and ineffective in competition with the new machinery. Allowance for this possibility must be made when fixing the rate of depreciation upon machinery.

Wear and Tear.

Wear and tear is probably the most important cause of depreciation, though its importance in comparison with obsolescence varies with the asset. Buildings become obsolete and suffer relatively

little through wear and tear; but rolling stock, such as motor-cars and wagons, suffers much from this latter cause, and allowance has to be made for this fact in fixing the depreciation charge.

The Basis and Rate of Depreciation Charges.

The depreciation charge is fixed according to the expected "life" of an asset, both wear and tear and obsolescence being taken into account. The charge is also affected by the decision as to the basis of the depreciation charge. It may be based on the original value of the asset or on the nominal value, which is the original value less the amount written off for depreciation. There is a big difference in the results when the same rate is employed on the different bases, as the following table shows. Taking an annual depreciation charge of 10 per cent on an asset of the original value of £100, the asset is written down completely in ten years in the one case, but only written down by two-thirds of its value in the other case in the same time.

ORIGINAL VALUE OF ASSET, £100. RATE OF DEPRECIATION, TEN PER CENT.

	A.—Depreciation based on Original Value.		B.—Depreciation based on Nominal or Reduced Value.
	£		£
First year. Book value to begin	100	.....	100
Charge for year	10	.....	10
Second year. Book value to begin ...	90	.....	90
Charge for year	10	.....	9
Third year. Book value to begin.....	80	.....	81
Charge for year	10	.....	8·1
Fourth year. Book value to begin ...	70	.....	72·9
Charge for year	10	.....	7·3
Fifth year. Book value to begin	60	.....	65·6
Charge for year	10	.....	6·6
Sixth year. Book value to begin.....	50	.....	59·0
Charge for year	10	.....	5·9
Seventh year. Book value to begin ..	40	.....	53·1
Charge for year	10	.....	5·3
Eighth year. Book value to begin ...	30	.....	47·8
Charge for year.....	10	.....	4·8
Ninth year. Book value to begin	20	.....	43·0
Charge for year	10	.....	4·3
Tenth year. Book value to begin.....	10	.....	38·7
Charge for year	10	.....	3·9
Value at end of ten years	£0	.....	£34·8

If nominal value is the basis, a higher rate of depreciation must be taken if the charge is to be equal to the actual falling off in value, and the rate should increase every year. Few business men commend the nominal value basis, and those who do so justify their commendation by saying that as the asset gets older the repairs charge increases, so that a falling depreciation charge, along with an increasing repairs charge, maintains a steady composite charge, which they consider desirable.

Despite this argument, the nominal value basis does not meet with the approval of wise men as a sound policy. The Co-operative Union and the Annual Congress recommend original values as the basis of depreciation charges, and recommend the following rates:—

Buildings, including Shops .... 2½ per cent per annum.
Fixed Stock and Plant .....10 ,, ,,
Rolling Stock .....20 ,, ,,

Interest Charges in Relation to Depreciation Charges.

The interest charges should not be overlooked in discussing this question. It is the custom of Co-operative Societies to charge their departments with interest upon the capital employed by them in the form of land, buildings, machinery, fixtures, etc., as well as upon that employed in the form of stocks of goods. If the basis of the depreciation charge is original values, the book value is reduced more quickly than if the basis is nominal values, and therefore the annual interest charge falls more rapidly in the first case and trade expenses are correspondingly lightened.

In the example given on page 172, the interest charges for the ten years in the case of A (original values) amount to £27. 10s., and in the case of B (reduced values) amount to £32. 10s. Whilst the depreciation charges in the case of B over the ten years are less by £34. 16s., the interest charges are greater by £5, so that the net saving to the Trading Account Charges, by taking nominal values as the basis for depreciation, is only £29. 16s. in the ten years. This saving is soon off-set in subsequent years, for, where the depreciation charges have been based on original values, there is no further charge for either interest or depreciation, whilst the charges continue indefinitely in the case where nominal values have been taken as the basis. The "saving" of £29. 16s. will be wiped out in the next eight years, when the asset will still stand at £15 in the books and will be subject to further annual charges.

Where an asset has been completely written off and is then sold, the amount for which it is sold can be applied in writing down other assets, or it can be added to the reserve fund.

Special Depreciation.

It happens at times that an asset falls in value more quickly than was anticipated. Buildings, farms, and machinery bought in the "boom" period a few years ago have fallen in value very considerably during recent years, and special depreciation charges beyond the customary rates have been necessary to bring them down to present-day values. Such depreciation is known as special depreciation. It happens, also, that at the end of a trading period, when good results are disclosed by the balance sheet, a society may decide to utilise a portion of the surplus for the writing down of the assets instead of distributing the whole of the surplus as dividend, or adding to one or other of the reserve funds. Any amount so applied ranks as special depreciation. Special depreciation is often applied in the writing down of shares and other investments, the market value of which has fallen, and to the writing down of the value of stocks of goods which are worth less than their purchase price.

Appreciation.

The converse of depreciation is appreciation, which is the writing up of the value of assets. It has been adopted during recent years by some societies in order to meet the exceptional difficulties created by the slump in values and by the bad trade which followed the boom. It was made possible by the rise in the value of buildings, etc., consequent upon the general rise in prices, and by the generous rates of depreciation which societies have employed in the past. The wisdom of the policy has been very much questioned, for nobody can tell what the future course of values will be; and, in any case, appreciation adds to working expenses by increasing depreciation and interest charges, which have to be based on the new and higher values.

PROPOSED DISPOSAL OF AVAILABLE BALANCE.

The Disposable Balance and its Treatment.

The balance of the Disposable Balance Account is the amount available for dividend, allocation to reserves, special depreciation, donations, etc., and the committee of a society, when presenting the

quarterly or half-yearly report of the society, make recommendations regarding the disposal of this amount. The recommendations may be presented in the form of the account "Proposed Disposal of Available Balance" outlined in Account IX. in the Standard Balance Sheet given in Appendix II.* It will be noticed, on reference to that account, that the available balance revealed by the Final Revenue Account may be increased in the Disposable Balance Account by appropriations from the various reserve funds; and the whole amount may be allocated over a variety of purposes, including not only allocations for dividend but also allocations for donations, special depreciation, reserve and insurance funds, and for educational purposes, whilst there will usually be a balance which is not distributed but is carried forward to the next account. This proposed disposal will become the actual disposal after it has been approved by the members, and it will appear in the next balance sheet as Part A of the Disposable Balance Account, whilst the undistributed balance will be carried to Part B of the Disposable Balance Account.

The Ledger Entries Recording the Disposal of the Surplus.

The Ledger entries which record the executed recommendations regarding the disposal of the available balance will find their primary entry in the Journal, and three examples may be given here to illustrate the method adopted for all the items:—

		£	s.	d.	£	s.	d.
1. ALLOCATION TO RESERVE FUND OF £100.							
Disposable Balance Account	*Dr.*	100	0	0			
Reserve Fund	*Cr.*				100	0	0
2. ALLOCATION OF DIVIDENDS AMOUNTING TO £900.							
Disposable Balance Account	*Dr.*	900	0	0			
Various Members for Dividend	*Cr.*				900	0	0
3. A DRAWING UPON RESERVE FUND FOR £200.							
Reserve Fund	*Dr.*	200	0	0			
Disposable Balance Account	*Cr.*				200	0	0

EDUCATION GRANT AND EDUCATION FUND.

The Sources of the Fund, and the Basis of the Grant.

All societies which are true to the ideals of the Rochdale Pioneers undertake educational work. In some few cases the cost of this work is treated as a trade expense; but, more usually, an allocation is made quarterly, half-yearly, or yearly to an education fund. The accounts relating to the expenditure of this fund do

*This is similar in its arrangement and inclusion of items to Part A of the Disposable Balance Account, also shown in Appendix II., and as given and explained on pages 151 and 152.

not concern us in this part (Part I.) of the text-book; but the allocation does. The allocation may be (1) a fixed annual sum; (2) an annual sum which varies but has no fixed basis; (3) a sum which varies annually but is based upon membership (at so much per member per year, as recommended by the General Co-operative Survey Committee); or (4) a sum which varies annually and is based upon the surplus, being a percentage of the surplus, often $2\frac{1}{2}$ per cent, which was the percentage adopted by the Rochdale Pioneers.

The Making of the Charge for Educational Purposes.

In the first three cases the charge may be made either against the Trading Account or the Final Revenue Account; but in the case of No. 4 it *must* be a charge in the Disposable Balance Account, Part A, as a part distribution of the surplus. In the other three cases, however, the charge *may* be against the Disposable Balance, the rules often deciding the point. It is desirable that where the education allocation is a fixed amount, or is based upon membership, the charge should be made against the Trading Account or Final Revenue Account, unless the rules provide otherwise. In all cases the Journal will be the book in which the primary entries will be made; and from the Journal the appropriate accounts (Trading, Final Revenue, or Disposable Balance Account) will be debited and the education committee's account will be credited with the amount. The committee's account will afterwards be debited when the amount of the allocation is paid over.

INTEREST CHARGES AND THE BASIS THEREOF.

The Justification for Charging Interest to Departments.

In building up the accounts of the Newway Co-operative Society, the student was introduced to the method of charging interest upon buildings and upon stocks, i.e., upon the capital employed by a department in carrying on its business. This practice of charging interest upon capital employed by departments, which is usual in Co-operative Societies, is not followed in other businesses. Its justification in Co-operative Societies is that societies have to pay interest to their shareholders as a prior claim before paying dividends; and each department which employs any of this capital must return to the funds of the society its quota of interest for the proportion of the capital it employs. This is only equitable if justice is to be rendered to all the depart-

ments. There is just as much justification for charging each department with interest upon the capital it employs in the form of buildings, fixtures, and stock, as there is in charging it with the insurance premiums upon these assets. The practice has the additional advantage of causing departmental managers to be economical in the use of capital, instead of employing it recklessly in fixtures and equipment and in purchasing excessive stocks of goods.

The Basis of the Interest Charges.

The interest charge in the case of buildings, fittings, machinery, etc., should be based upon the nominal or reduced value at the beginning of the trading period. The nominal rather than the original value is correct, because the department has paid off, through the depreciation charges, that part of the original cost which is represented by the difference between the original value and the nominal, or reduced, value.

The interest charge in the case of stocks should be based upon the average value of stock held during the quarter or half year. Stock at the end of a trading period is not a reliable basis, for the stock is usually reduced during the weeks immediately preceding the end of the quarter or half year. If the purchases during the first half of the quarter (or half year) are added to the stock on hand at the commencement of the quarter (or half year), and the sales at cost price are deducted therefrom, an approximately accurate basis for the interest charge is obtained. The rate of interest charged to departments should be based upon the average rate actually paid (not the nominal rates) upon its share and loan capital during the previous quarter or year, being a little higher than the average to allow for office expenses in recording that capital.

The method of treating the interest charges in the accounts has already been explained.

VARIOUS RESERVES, RESERVE FUNDS, AND INSURANCE FUNDS.

(a) General and Special Reserve Funds.

Reference has already been made (pages 54 and 55) to the nature of a Reserve and Reserve Fund. It only remains to be added here that besides the General Reserve Fund, societies often create Special Reserve Funds. A Dividend Equalisation Fund is an

example of such a Special Reserve Fund. It does not differ in nature from a General Reserve Fund. Like the latter, it represents a surplus of assets over liabilities; but it differs from the latter in being earmarked for a special purpose. It is drawn upon in order to increase the dividend when the trading results are not adequate to pay the rate of dividend which the society desires to pay; but there is nothing to prevent its being used for other purposes.

(b) Reserves against Known and Contingent Liabilities.

At the time the General Reserve Fund and the Dividend Equalisation Fund are created (by an allocation from the surplus) there is no known charge against them; but it often happens that a society has a liability, actual or potential, the extent of which is uncertain; and it desires to provide a reserve against it. If, for example, the society has given credit to members and others, it may know that it will not receive all the debts outstanding, but which of the debts will not be paid it does not know, nor does it know the exact amount of the loss it will incur. It provides against this known loss of an uncertain amount by creating a reserve of an amount considered equal to, or in excess of, the anticipated loss, so that each trading period may bear its own losses and not throw them on to future ones, and also in order not to overstate the assets of the society. Such a reserve is not of the same nature as a reserve fund. When the Corporation Tax applied to Co-operative Societies, and the charge which societies had to meet for any trading period was not known when the accounts for that period were made up, it was customary, prudent, and correct to create a reserve to cover the amount of the expected liability.

(c) Insurance Funds.

Some societies, instead of paying a premium to effect an insurance on certain classes of their property, create their own insurance fund by allocating each year an amount equal to what they would have paid in premiums. A Plate Glass Insurance Fund is an example of this type of insurance fund. If the society loses a number of windows in the first year, it is worse off than it would have been if it had insured with an insurance society or company; and it takes risks which may be especially unpleasant in their results during the early years of building up the fund. It is not, however, our purpose or duty to discuss the merits of the

policy of societies in this respect, but to indicate the features of the fund.

An insurance fund is in the nature of a reserve fund, like a General Reserve Fund, even though it may be completely exhausted by one loss, for it represents a surplus of the society's assets over its known liabilities, and it therefore differs from a reserve against bad debts. It is clear that it is a real surplus, for if a society which has built up an insurance fund decides to change its policy and insure with the Co-operative Insurance Society, its future risks are covered when the first premium is paid, and there is then no liability upon its own insurance fund. The fund is comparable with other reserve funds in another respect, for so long as the society does its own insurance the fund is liable to be drawn upon in the same way as is the General Reserve Fund, viz., when some loss is incurred. It may even be drawn upon for dividend purposes.

Besides the Plate Glass Insurance Fund, Cattle Insurance Funds and Workmen's Compensation Funds are to be found in the balance sheets of some societies. The Death Benefits Fund partakes of the nature of a reserve fund, but also of the nature of a reserve like the reserve, or provision, for bad debts, for there is a comparatively certain liability attached to it.

Other Reserves, Reserve Funds, and Insurance Funds.

Other reserves, reserve funds, and insurance funds recorded in the Co-operative Union statistics are the Contingency Fund (partly a reserve and partly a reserve fund, according to the contingency provided against); the Sick Appliances Fund (a sum set aside for a specific purpose and not spent, therefore a surplus of assets over liabilities and a reserve fund for the time being); the Improvements Fund, the Expenses Fund, and the Charitable Objects Fund (reserve funds, but, like the Dividend Equalisation Fund, earmarked for a particular purpose); and Investments Reserve Fund (a reserve like the Bad Debts Reserve, to provide for a prospective loss on Investments).

Donations from the Reserve Fund.

A note should be added here that some societies (including the Co-operative Wholesale Society) make their donations to charities from the Reserve Fund according to rule, and this

secondary use of a reserve fund should not be overlooked, as it not only affects the value of the reserve fund for its primary purpose of meeting unexpected losses, but also involves a different method of treating donations in the accounts of a society. In such a case the amount donated from the Reserve Fund should be brought in on the Cr. side of the Disposable Balance Account, Part A, and debited on the Dr. side under the heading of Charitable Donations.

Hidden Reserves.

When an asset included in the Statement of Liabilities and Assets is undervalued, the difference between its stated value and its actual value is said to constitute a hidden reserve. Such a reserve may be created by a conservative valuation of the assets, but more often is created by consciously and intentionally understating the value of the assets. If the depreciation charge has been greater than the actual depreciation necessitates, a hidden reserve will arise from the first cause. If stock is deliberately undervalued by omitting certain items from the stock records, if items that might be charged as capital expenditure are charged as revenue expenditure, or if investments are included among the assets at less than the market price, a hidden reserve will arise from the second cause. As no book-keeping records are kept of these reserves—it is because they are not recorded in the Statement of Liabilities and Assets in the balance sheet that they are described as *hidden* reserves—the question of entry in the accounts does not arise. Such reserves are merely an undisclosed surplus of assets over liabilities, which add to the financial strength of the society; but so long as they exist, the balance sheet is not a correct statement of the position of the society. The creation of hidden reserves is defended on the ground that such funds are not as readily drawn upon for dividend purposes as ordinary reserve funds. The surplus disclosed in any trading period is, of course, reduced by the amount of hidden reserve created during that period.

EXTENDED USE OF THE JOURNAL.

In several previous chapters, reference has been made to the Journal and its employment as a book of primary entry; and it was employed in recording some of the transactions of the Newway Society, in order that the student might become familiar with certain classes of entry for which it serves as a primary book

of entry, and become familiar, also, with the method of entering and posting these Journal items. It is now necessary to add that the Journal is often, though not always, employed for certain other classes of entry, which we shall now explain.

The Use of the Journal for Recording Transfers.

The student will remember that the Trading Account balance was transferred to the Final Revenue Account. It was a Trading Account surplus, and was a debit in the Trading Account and a credit in the Final Revenue Account. If we adhere strictly to the rule that all entries before being entered in the Ledger should first be entered in one of the books of primary entry, this entry should have been journalised as follows:—

		£	s.	d.	£	s.	d.
Trading Account	*Dr.*	36	0	0			
Final Revenue Account	*Cr.*				36	0	0

Similarly, the transfer of the balance of the Investments Revenue Account to the Final Revenue Account should have been journalised; and so should (*a*) the transfer to the Disposable Balance Account of the balance of the Final Revenue Account; (*b*) the share interest items in the Balance Disposable Account; (*c*) the transfer of the Balance Disposable Account to the Statement of Liabilities and Assets; (*d*) the item of stock in hand, which should have been debited to the Statement of Liabilities and Assets and credited to the Trading Account; and (*e*) the transfer of the balances of the Impersonal Ledger Accounts to the Trading Account and Investments Revenue Account.

The foregoing examples will serve as a sufficient illustration of the employment of the Journal for the purpose of transferring balances from one account to another. It is very much better to journalise the transfers in this way instead of transferring a balance direct from one account to another, as it is more likely that one side of the transfer will be overlooked by the direct method than by the journalising method. Although it is considered wiser by many accountants to adhere to the rule already laid down, and enter no item in the accounts that has not originated in the Journal or other book of primary entry, direct transfers are made by some book-keepers, who, in order to save the time and trouble involved in the journalising of transfers, are prepared to take the risk of errors arising out of the shorter method they adopt.

Journalising the Transfers to the Statement of Liabilities and Assets.

There is, however, still another class of transfer entry for which the Journal is often employed, but the case for journalising it is perhaps not as strong as the case for journalising the other transfers. We have seen that the Statement of Liabilities and Assets is compiled from the outstanding balances in the various Personal and Impersonal Ledgers after all the accounts up to the Final Revenue Account have been prepared. Some accountants recommend the closing of these accounts in which there are balances, by a transfer to the Statement of Liabilities and Assets, instead of bringing down the balances direct (as explained on page 50) and summarising them.

These transfers and the closing of the accounts are accomplished by debiting or crediting the accounts in which there is a balance, and transferring the balances to the Statement of Liabilities and Assets, the Journal being employed as the book of primary entry for these transfers. The result of the adoption of this practice is that the only account left at the end of the trading period is the Statement of Liabilities and Assets, all the others being closed. At the commencement of the succeeding trading period, the items in the Statement of Liabilities and Assets are again journalised and the balances (representing liabilities and assets) are restored to their respective accounts, which are thus re-opened with commencing entries for the next trading period. From the point of view of theory and strict adherence to principle, there is much to be said for the practice here explained; but its adoption causes extra work, which many book-keepers do not think is justified by the benefits gained; and if a trial balance has been prepared before compiling the Statement of Liabilities and Assets, there is not much risk of any item being overlooked.

STOCKS AND STOCKTAKING.

The Recording of Stock.

Before the accounts for a trading period can be made up, the value of the stock on hand has to be ascertained. Various methods of taking stock are adopted, but they need not be explained and discussed here. It will suffice to say that the stocks should be checked for quantity and quality by an independent person qualified for the work, and they should be entered in a book (not on sheets,

which may more easily be misplaced and lost than a book), which should be signed by the person who has taken the stock and by the person who has checked the stock. The prices should be added for the various items and the items extended, thus giving the value of each item and, by totalling, the value of the whole stock. The prices and the extensions (i.e., the calculations) and the totals should all be checked, and their accuracy vouched for by the persons who have been responsible for their insertion and for the checking, these persons initialling, or signing, the stock book to give their authority to the figures.

The Basis of Valuation of Stocks.

The correct basis for valuing stocks is the price paid for the goods, or the present replacement cost, whichever is the lower. This is often stated in the phrase "cost or present market value"; but the former statement is a more correct form, because "present value" may mean (retail) selling value, which is incorrect. In the past, and it may be at the present time, some societies have based their stock values upon retail values from which they deduct a percentage. This is wrong for at least two reasons: (1) If retail prices have advanced since the goods were bought (general prices rose continuously between 1914 and 1920, and prices of individual commodities are rising at all times), the society is taking to itself a profit on the goods the prices of which have risen, and it is quite wrong to take credit for this profit before the goods have been sold; (2) the percentage deducted from the stock valued at retail prices is usually the rate of the gross surplus or profit on the sales as a whole, but this is a wrong percentage, for the proportion of, say, butter sales to total sales is not necessarily the same as the proportion of butter stocks to total stocks. If a society has a big turnover of goods bearing only a small margin, or surplus, its rate of gross surplus will be less than the average difference between the cost and selling value of the stocks as a whole; and the rate of gross surplus will be an insufficient rate to deduct from the retail value of the stocks to bring them to cost value.

To take goods into stock at selling prices is obviously wrong, because the goods are not worth these prices until they have been sold. If they were taken into stock at retail values and the expenses of selling them had to be met in a subsequent trading period, the first trading period would benefit unjustifiably and the second

trading period would suffer unjustly. In addition, the balance sheet would be an untrue statement, for the value of the stocks would be overstated.

Why Cost Price or Present Replacement Cost should be the Basis of Stock Valuation.

The justification for taking goods into stock at present replacement cost when prices have fallen is the desirability of attributing to each trading period the losses of that period. If a manager commenced a trading period with stocks that were overvalued in relation to selling prices, he could not be expected to produce a surplus for that period. If a manager buys unwisely during one quarter on a falling market, the loss should fall on that quarter's trading. If prices are rising and replacement costs have therefore risen, the original cost is the best basis for stocktaking purposes, because prices may fall again before the goods are sold, and retail prices may not advance at the same rate as wholesale prices, if at all, for some time after wholesale prices have advanced.

If retail prices do advance *pro rata* with wholesale prices, and stocks have been recorded at cost price, the department benefits from the realisation of a greater rate of surplus upon those goods in stock that were bought before prices rose. The benefits are therefore only deferred, not lost.

Writing Down of Stocks.

It is not uncommon, even when goods have been valued at the lower figure—original cost or present replacement cost—to deduct a further percentage to allow for deterioration and for emergencies. So far as this deduction is in excess of the amount necessary to bring the stock to actual value, the excess deducted causes the stock to be understated, and, as in the case of the understatement of other assets, the amount by which the stock is understated is of the nature of a hidden reserve. The general practice of deducting a small percentage from the value of stocks is, however, a sound one that is to be commended.

Goods that remain in stock for some time usually decline in value. Millinery, draperies, boots and shoes, and similar goods become soiled and old-fashioned, and foodstuffs lose their attractive appearance and some of their qualities by keeping. They may, therefore, have to be sold at a lower price than was contemplated,

and they may even have to be sold at less than cost price. Where goods have been in stock for some time it is therefore necessary to write down their value at each successive stocktaking, so that when they are sold they will yield a surplus over the stocktaking value. To facilitate this reduction at the time of stocktaking, many societies now cause draperies and similar goods to be marked with a private sign at the time of purchase, this sign indicating the quarter, half year, or year in which the goods were bought.

SUPPLEMENTARY AND ALTERNATIVE ACCOUNTS.

The accounts explained in the previous chapters of this book relate to a society with only one department. Such a society was selected in order to avoid the complications of departmental accounts which are too difficult for a beginner to comprehend. The departments of a large society are numerous, and besides a normal type of departmental accounts suitable for all distributive departments, a special type of accounts is necessary for some of the departments, e.g., for the farms. There are also amplifications of the simple accounts explained in Chapters I. to XIII., and these amplifications of the ordinary and departmental accounts, as well as the special accounts for special departments, will be considered in Part II. of this book; but the elementary student should know that provision is made for them and that the Co-operative Union publishes a special booklet containing a standard form for these alternative and supplementary accounts.

WORKING OUT THE BALANCE SHEET FROM THE TRIAL BALANCE.

It is possible to make out the balance sheet accounts from the trial balance, and examination candidates are often asked to do so. A few words on the subject may, therefore, be helpful. Usually, the trial balance included in an examination test does not include the adjustments that have to be made at the end of the trading period.

The candidate may be given the items in single column form and have to make up his own trial balance from them, and he should first be sure that the trial balance balances. It is useless to expect a correct result if the trial balance does not balance before the adjustments are made. Having satisfactorily completed the

trial balance, the candidate should journalise the adjustments and incorporate the journalised items in the trial balance (on the same side as in the Journal). Stock on hand in the trial balance is the stock to begin; it was in the previous balance sheet as an asset, and a trial balance of the liabilities and assets in that balance sheet would be the Statement of Liabilities and Assets reversed. As nothing has since happened to affect the stock item as a Ledger entry, it still remains a Dr. item; and it appears as such in the trial balance at the end of the next trading period. Stock on hand at the end of the trading period does not appear in the trial balance unless it is put there by journalising it—debiting the assets and crediting the Trading Account.

The Rules for Building Up the Balance Sheet from the Trial Balance.

The candidate should total the trial balance again with the journalised items incorporated, and having found that the Dr. and Cr. items agree, he can proceed to prepare the accounts for the balance sheet. The rules are simple. Items in the Dr. column in the trial balance appear on the Dr. side of the various Revenue Accounts, or on the assets side of the Statement of Liabilities and Assets; and items in the Cr. column of the trial balance appear on the Cr. side of the various Revenue Accounts, or on the liabilities side of the Statement of Liabilities and Assets.* The balance of a Revenue Account is carried to the opposite side of the account when carried to a Revenue Account, and to the same side when carried to the Statement of Liabilities and Assets. Hence the following rules:—

(1) Items in the trial balance carried to the Revenue Accounts are entered on the same side as that upon which they appear in the trial balance.

(2) Items in the trial balance carried to the Statement of Liabilities and Assets are carried to the side opposite from that upon which they appear in the trial balance.

(3) The balance of a Revenue Account is carried to the opposite side when carried to another Revenue Account, and is carried to the same side when carried to the Statement of Liabilities and Assets.

* The student must learn to distinguish which are Revenue Account items and which are Assets and Liabilities. The distinction has been clearly explained in earlier chapters.

The stock on hand at the end of the period, if not already carried there from Journal entries, must be entered on the Cr. side of the Trading Account and the assets side of the Statement of Liabilities and Assets.

If the foregoing rules are followed, the balance sheet accounts should balance. This will be fairly obvious upon reflection. The debits and credits in the trial balance agreed. The net surplus from the Revenue Accounts is the difference between the debits and credits in those accounts—a surplus of credits—and when this amount is added to the remaining Cr. items of the trial balance which appear in the Statement of Liabilities and Assets, these Cr. items—the liabilities—should agree in total with the Dr. items—the assets.

THE AUDIT OF ACCOUNTS AND SIGNING OF THE BALANCE SHEET AND ANNUAL RETURN.

The Industrial and Provident Societies Act of 1913 provides that "every registered society shall once in every year submit its accounts for audit to one or more public auditors," and the Act of 1893 provides that "the auditors shall have access to all the books, deeds, documents, and accounts of the society, and shall examine the balance sheets showing the receipts and expenditure, funds and effects of the society, and verify the same with the books, deeds, documents, accounts, and vouchers relating thereto, and shall either sign the same as found by them to be correct, duly vouched, and in accordance with law, or specially report to the society in what respects they find them incorrect, unvouched, or not in accordance with law." It is therefore necessary to have the books and accounts of a society audited at least annually by a public auditor, and the auditor must sign the balance sheet. The auditor must also sign the Annual Return, which every society must forward to the Registrar of Friendly Societies in prescribed form every year.

SUMMARY.

Statement of Trade Expenses Recorded According to Nature. This statement can be built up from the data in the Invoice Analysis Book by taking out, on paper and with the assistance of the adding machine, the items under each "nature" heading, or by posting the items of each class to a separate Ledger Account.

Adjustments.—Adjustments are of two classes. The first class includes items which are a definite charge or credit and are finally disposed of when they are entered in the Ledger and balance sheet. The depreciation charge is an example of such an item. The second class includes items which are either estimates or are a part of a charge, or credit, which will come forward at a later date for a period of which the period covered by the adjustment is only a part. Share investment interest that is calculated half-yearly and will be credited for the full period by the payer at a later date is an example of such an item, the interest for the portion of the half year being estimated if the balance sheet covers only a portion of the half year. In the case of entries of the second class, the Journal entries are reversed after the balance sheet has been made out.

Depreciation and Appreciation.—Depreciation may arise through obsolescence or wear and tear; and allowance must be made for both these causes of depreciation when fixing the depreciation charge. The depreciation charge may be based upon either the original value or the nominal value of the asset. The former basis is the best one to adopt. The Co-operative Union recommends depreciation on original values at the following rates: Buildings and shops, 2½ per cent; fixtures, 10 per cent; and rolling stock, 20 per cent. Special depreciation is the application of special amounts as a depreciation allowance in excess of the normal rate of depreciation of an asset. Appreciation is the converse of depreciation, and consists of writing up the value of an asset.

Proposed Disposal of Available Balance.—This is the recommendation of the society's committee regarding the disposal of the available balance. It is included either in the committee's report or in the balance sheet. The proposed disposal, after approval by the members, becomes the actual disposal, and, as such, is entered up as Part A in the Disposable Balance Account in the next balance sheet.

Education Grant or Charge.—The provision for education may be treated as a trade expense, as a Final Revenue Account charge, or as a part allocation of the surplus disposable. It may be either a fixed annual sum, a variable annual sum without fixed basis a sum based upon membership and therefore varying with membership, or a percentage of the net surplus.

Interest Charges against Revenue and the Basis Thereof.—The charging of interest to each department for the amount of capital it employs in the form of land, buildings, and fixtures, and in the form of stocks, is justified by the method of distributing the surplus in Co-operative Societies, and by the necessity for each department to contribute its quota to the fund for providing the interest payable on share capital. It also establishes equity between the departments in regard to capital charges, and encourages departmental economy in the use of capital. Nominal value of buildings and fixtures is the correct basis of the interest charge upon these assets, and the average quantity of stock held is the correct basis of the charge for interest on stocks.

Reserves, Reserve Funds, and Insurance Funds.—Besides the General Reserve Fund, societies have special reserve funds, such as the Dividend Equalisation Fund. Reserves such as Bad Debts Reserve, which are a provision for a liability which is certain in its occurrence, but perhaps uncertain in amount, are not reserve funds, because they do not represent

a surplus of assets over liabilities. Insurance funds are, generally, of the nature of reserve funds. Some societies make their charitable donations from the Reserve Fund. A "Hidden Reserve" is a reserve that is not disclosed in the Statement of Liabilities and Assets. It is created by overstating the liabilities or understating the assets.

EXTENDED USE OF THE JOURNAL.—Some accountants recommend that the transfer of balances from one account to another should be made through the medium of the Journal, and not direct. The employment of the Journal for this purpose satisfies the requirement that all Ledger entries should have their origin in a book of primary entry, but extra work is involved, which some persons do not think necessary. The balances of the accounts which appear in the Statement of Liabilities and Assets can also be transferred to this statement through the medium of the Journal, and after the preparation of the balance sheet can be transferred back to the Ledgers through the same medium, to form the first entries for the subsequent trading period.

STOCKS AND STOCKTAKING.—Stocks should be valued at cost price, or present replacement cost, whichever is lower. Retail prices, less a percentage, are an incorrect basis. Where goods have been in stock for some time, they should be written down at each successive stocktaking.

SUPPLEMENTARY AND ALTERNATIVE ACCOUNTS.—Large societies with several departments, some of which are of a special nature, require to publish more detailed accounts than a small society with only one department. The necessary accounts are explained in Part II. of this book, and the Co-operative Union publishes a booklet containing typical forms of account for the various needs of societies.

WORKING OUT THE BALANCE SHEET FROM THE TRIAL BALANCE.—It is possible to make out a balance sheet from a trial balance after the adjustments have been incorporated and allowance has been made for stock on hand at the end of the period. The items in the trial balance appear on the same side when inserted in the Revenue Accounts, and the opposite side when entered in the Statement of Liabilities and Assets. The balances of the Revenue Accounts when transferred to other Revenue Accounts are transferred to the opposite side of the account, and, when transferred to the Statement of Liabilities and Assets, appear on the same side as that from which they have been transferred. A society's books and accounts must be examined at least once a year by a public auditor, who must sign the balance sheet and also the Annual Return.

QUESTIONS AND EXERCISES.

1. Mention the two ways in which the Statement of Trade Expenses recorded according to nature may be compiled. From what source are the data obtained?

2. Prepare a Statement of Trade Expenses recording the expenses according to nature, inserting about ten classes of expense and the amount of each class of expense.

3. Prepare a Statement of Trade Expenses as required in Question 2, but showing also the allocation of each amount of expense on a functional basis. In answering this question, use your own judgment as to the amounts to be included under each functional heading.

4. What are the two classes of adjustment made at the end of a trading period, and in what respects do they differ? Give two examples of each class.

5. Certain items which are the subject of an adjustment entry at the close of a trading period are connected with charges or credits for the next period. How would you treat these items at the commencement of the next trading period? Show the necessary Journal and Ledger entries for four items that are the subject of such adjustment entry.

6. Mention six classes of items, other than the two mentioned below, that have usually to be the subject of adjustment entries through the Journal. Give the Journal entries required for adjusting the following charges:—

(*a*) A quarter's depreciation on buildings of original value of £1,200, the rate of depreciation being 2½ per cent per annum.

(*b*) Rates for the quarter, April 1st to June 30th, the amount of £60 for the half year, April 1st to September 30th, being paid in May.

7. What is depreciation, and what causes give rise to it ? How is it allowed for in the accounts of a society ?

8. Why is the rate of depreciation higher for rolling stock than for fixtures, and higher for fixtures than for buildings ?

9. What are the two bases for depreciation charges ? Which basis is the best, and why ?

10. What are (*a*) Special Depreciation and (*b*) Appreciation ?

11. What is the Disposable Balance ? In which accounts is it to be found in the balance sheet ?

12. Outline, in blank, the account included in the balance sheet showing the proposed disposal of the available balance.

13. Give the Journal entries required to effect the carrying out of the disposal of an available balance of £1,200 for the following purposes: (*a*) Dividend to Members, £800; (*b*) Allocation to Education Fund, £100; (*c*) Allocation to Reserve Fund, £200; (*d*) Allocation to Dividend Equalisation Fund, £100.

14. What are the principal four bases upon which provision for educational purposes is made ? To which accounts may the provision be debited in each case ?

15. Why is it correct to charge a society's trading departments with interest upon the capital they employ in the form of (*a*) land, buildings, fixtures, etc., and (*b*) stocks of goods ?

16. Upon what basis of value is the interest charged in the case of (*a*) land, buildings, fixtures, etc., and (*b*) stocks ? What is an appropriate rate of interest to charge ?

17. In what Ledger Accounts are the interest charges recorded in the case of (*a*) buildings; (*b*) stocks ? Give the Journal entries required to record the charging of interest for these purposes to a department.

18. Mention some reserve funds, other than the General Reserve Fund, and indicate what entries are made in the Journal when (*a*) these funds are being increased, and (*b*) when these funds are being drawn upon.

19. How does a reserve for bad debts differ from a reserve fund ?

20. Mention some of the insurance funds to be found in co-operative balance sheets. How far is it true that insurance funds are reserve funds ?

21. What is a Hidden Reserve, and how is it created ?

22. What Journal and other entries are required when charitable donations are made from the reserve fund ?

23. Explain, with three illustrations, the employment of the Journal for recording the transfer of balances from one Ledger Account to another.

24. What precautions should be observed to ensure the accuracy of the amount taken into the balance sheet as the value of stock-in-trade ?

25. What is the correct basis for recording the value of goods in stock ? Why are retail prices less a percentage an incorrect basis of stock valuation ?

26. Describe the procedure of building up the balance sheet accounts from a Trial Balance when certain adjustments have first to be made.

27. Journalise the following adjustments, and then incorporate them in the Trial Balance given below:—

Depreciation on buildings at 2½ per cent per annum.
Rates paid in advance, £39, of which £26 belongs to current half year and £13 to the next half year.
Interest on members' share capital, £60.
Reservation for prospective loss on bad debts, £20.
Stock on hand at end of period, £200.

	Dr	*Cr.*
	£	£
Stock on hand to begin	250	...
Purchases for half year	800	...
Sales for half year	...	1200
All trading expenses for half year	100	...
Cash at bank	1450	...
Sundry debtors	200	...
Sundry creditors	...	100
Members' share capital	...	2500
Share investments	800	...
Buildings	800	...
Interest Receivable Account	...	20
Reserve Fund	...	500
Disposable surplus brought forward	...	80
	£4400	£4400

28. Having completed the answer to Question 27, make out from the new Trial Balance the balance sheet accounts.

29. The following is the Statement of Liabilities and Assets of the Ceedee Co-operative Society at the end of December. Journalise the items contained in it and open the necessary Ledger Accounts to show the commencing entries for the half year, beginning January:—

STATEMENT OF LIABILITIES AND ASSETS.

LIABILITIES.	£	ASSETS.	£
1. Shares—		1. Stocks—	
Withdrawable Shares	2000	Trading Stocks	600
2. Loans, etc.—		2. Property—	
Savings-Bank Deposits	200	Buildings used in Trade	800
Loan Capital	800	Fixtures and Fittings	200
3. Various Liabilities—		3. Investments—	
Creditors, for Goods	500	(*a*) Shares, I. & P. Societies	1000
Amount Appropriated for Share Interest not yet credited to Share Capital Account	50	(*b*) Loans, I. & P. Societies	200
4. Reserve & Insurance Funds—		4. Various Assets—	
General Reserve	500	Accounts paid in advance	100
Dividend Equalisation F'd	200	Cash in hand	100
Plate Glass Insurance F'd	100	,, at Bank	1750
Balance disposable	400		
	£4750		£4750

30. On which side are the Trial Balance items entered when making up (*a*) the Revenue Accounts, and (*b*) the Statement of Liabilities and Assets? To which side of the accounts are balances of the Revenue Accounts carried?

CHAPTER XV.

CHEQUES.

THE CONVENIENCE OF CHEQUES.

CHEQUES are a convenient medium for the transfer of ownership of money lying at the bank, and they are much used by debtors to pay the accounts they owe, as they render unnecessary a withdrawal in cash from the bank for this purpose. The inconvenience and cost of transmitting coin are saved to the debtor by the simple expedient of sending a cheque by post to his creditor; and his creditor, if he has a banking account, finds it easier to deal with payments received in the form of cheques than in the form of cash. Not only business men, but private individuals as well, now find it a convenience to use a cheque book; and, therefore, it has become increasingly necessary for those who are engaged in the offices or shops of a Co-operative Society to have some knowledge of cheques.

What are Cheques?

Cheques belong to the family of documents known as "bills of exchange," and the law relating to bills of exchange covers cheques.* Bills of exchange, other than cheques, are not often seen in the offices of Co-operative Societies, and will not be considered here; but they are extensively employed in non-co-operative businesses, particularly in the import and export trades.

The definition of a cheque as "a bill of exchange drawn on a banker and payable on demand"† clearly indicates its classification among commercial documents. It differs from other bills of exchange, mainly by reason of the fact that it does not require

* A bill of exchange has the following legal definition, and a cheque must comply with it: "A bill of exchange is an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a sum certain in money to, or to the order of, a specified person, or to bearer."

† Another definition is: "A cheque is an order upon a banker to pay a specified sum of money to a person named, his order, or to bearer."

to be "accepted"‡ by the drawee in the same way that other bills of exchange usually are, and it is payable on demand, whilst other bills may be payable at a future date. Cheques must bear a twopenny stamp, which may be either an adhesive stamp or an imprinted stamp of the type usually found on cheques. It is usual to use the cheques supplied by banks in book form; but this is not essential, as any piece of paper properly stamped meets the legal requirements.

Three Parties to a Cheque.

There are three parties to a cheque, as to other bills of exchange, though one person may act in two capacities. The three parties are:—

(1) Drawer—the person who writes out and signs the cheque.

(2) Drawee—the person upon whom the cheque is drawn, viz., the bank.

(3) Payee—the person to whom the amount of the cheque is payable.

The drawer of a cheque requires the drawee to pay a specified sum of money to the payee. The drawer of the cheque may also be the payee. In the following example the drawer is John Smith, the drawee is the Co-operative Wholesale Society Ltd., and the payee is the Co-operative Insurance Society Ltd.

No. 7/100001 *September 30th*, 1925.

To the

CO-OPERATIVE WHOLESALE SOCIETY LIMITED,
MANCHESTER.

2d. STAMP.

Pay to *Co-operative Insurance Society Ltd.*, or Order

Pounds	Shillings	Pence
Fifty	*Ten*	*Six*

£50. 10s. 6d. *John Smith.*

THE ABOVE IS AN OPEN ORDER CHEQUE.

‡ "Accepted" in this connection has a special meaning, and signifies that the drawee agrees to pay the amount of the bill, an agreement which he expresses by writing "accepted" across the face of the bill and signing his name to the acceptance.

Classification of Cheques.

Cheques may be classified in two ways: First, as either (*a*) Order Cheques or (*b*) Bearer Cheques, and, second, as either (*a*) Open (or uncrossed) Cheques or Crossed Cheques; whilst Crossed Cheques may be further classified as cheques crossed generally or cheques crossed specially.

It will be convenient to set down these various classes in tabular form.

Cheques may be classified as:—

A. (1) Order cheques, which may be either open or crossed cheques.

(2) Bearer cheques, which may be either open or crossed cheques.

B. (1) Open (or uncrossed) cheques, which may be either order or bearer cheques.

(2) Crossed cheques, which may be either order or bearer cheques.

Crossed cheques may be crossed (*a*) generally or (*b*) specially. Examples of various classes of cheque are given below and on page 195. It will be our next task to explain the various classes of cheque, and indicate the difference between them.

1. BEARER CHEQUE—UNCROSSED.

No. A/3007. *September 30th*, 1925.

To the

CO-OPERATIVE WHOLESALE SOCIETY LIMITED,
MANCHESTER.

2d. STAMP.

Pay to *Robert Williams*, or Bearer

Pounds	Shillings	Pence
Ten	*Fifteen*	*Six*

£10. 15s. 6d. *Fred Jones.*

2. ORDER CHEQUE—CROSSED GENERALLY.

No. B/8037. *September 30th*, 1925.

To the
CO-OPERATIVE WHOLESALE SOCIETY LIMITED,
MANCHESTER.

Pay to *Robert Owen*, or Order.

& Co.

2d. STAMP.

Pounds	Shillings	Pence
Twenty	*Seven*	*Nine*

£20. 7s. 9d. *Henry Maine.*

3. ORDER CHEQUE—CROSSED SPECIALLY.

No. C/17852. *September 30th*, 1925.

To the
CO-OPERATIVE WHOLESALE SOCIETY LIMITED,
MANCHESTER.

Pay to *William Smith*, or Order.

London United Banking Co., Ltd., Bristol.

2d. STAMP.

Pounds	Shillings	Pence
Eighteen	*Six*	*Four*

Greenvalley Co-operative Society Ltd.
John Lord, Chairman.
Frank Stone, Secretary.

£18. 6s. 4d.

4. ORDER CHEQUE—CROSSED GENERALLY AND NOT NEGOTIABLE.

No. D/18256. *September 30th*, 1925.

To the
CO-OPERATIVE WHOLESALE SOCIETY LIMITED,
MANCHESTER.

Pay to *William Smith*, or Order,

& Co.

Not Negotiable.

2d. STAMP.

Pounds	Shillings	Pence
Ninety-five	*Fourteen*	*Nine*

£95. 14s. 9d. *Samuel Rhys Davies.*

ORDER CHEQUES AND BEARER CHEQUES.

Order Cheques.

An order cheque is a cheque made payable to a person named in the body of the cheque or his order; it instructs the bank upon which it is drawn to pay the amount specified, either to the payee mentioned in the cheque, or to any other person named by the payee in an endorsement at the back of the cheque, or, if the payee endorses the cheque in blank, i.e., merely signs his name on the back of the cheque, to any person who presents it. An order cheque when endorsed in blank becomes, in effect, a bearer cheque, since it can pass from hand to hand, and each person who receives it after this endorsement can, if he wishes, secure payment without intermediate holders having to endorse it. Endorsements are explained on pages 202 and 203.

Bearer Cheques.

A bearer cheque is payable to anyone who is the bearer or holder of the cheque for the time being; and there is no need for the person mentioned as payee on the face of the cheque to endorse it before the drawee bank will pay it, though the bank will usually request the person presenting it to endorse it in order that payment may be traced. A bearer cheque will therefore pass from hand to hand more readily than an order cheque. The fact that it does not require endorsement by the payee mentioned on the face of the cheque distinguishes a bearer cheque from an order cheque.

A bearer cheque can be altered to an order cheque by any holder of it. He merely requires to alter the words "or bearer" on the face of the cheque to "or order"; no initialling of the alteration is required, but is desirable. An order cheque can be converted into a bearer cheque only by the original drawer, who must alter the words "or order" to "or bearer," and initial the alteration. If there are two or more signatures to the cheque, the alteration must be initialled by all of them.

OPEN CHEQUES AND CROSSED CHEQUES.

Open Cheques.

An open, or uncrossed, cheque is a cheque across the face of which there is no writing or mark conveying an instruction to the bank upon which it is drawn not to pay cash across the counter for the amount of the cheque. Certain marks and phrases (which will be explained in a subsequent paragraph) on crossed cheques have by usage become instructions to the bank not to pay cash across the counter for cheques so marked. These crossed cheques, which can still pass from one person to another, have ultimately to be paid into a banking account; their value is collected by the bank into which they are paid; and the amount is credited to the account of the person on whose behalf they are paid in at the bank. The payee cannot normally secure cash for it from the drawee bank.

On the other hand, a person who is the rightful owner of an open, or uncrossed, cheque may take it to the bank mentioned in the cheque (i.e., the drawee bank) and, after endorsing it, secure cash for it, provided, of course, there are funds sufficient standing to the credit of the drawer of the cheque. The payee is not forced to draw cash for the cheque, or "cash the cheque" as the phrase runs, but may pay it to the credit of his own account at his own bank for collection, and he usually finds it more convenient to do so. Open cheques are required when a cashier goes to the bank to draw money for wages; but where accounts are being paid by cheque, and particularly if the cheques are being sent by post or messenger, they should be crossed in order to limit the possibility of theft or misuse. Any holder of an uncrossed cheque can cross it either specially or generally; and the drawer of a crossed cheque can cancel the crossing by writing on the cheque "Pay cash" and signing the alteration.

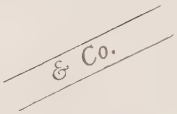
Crossed Cheques.

There are various kinds of crossing, but the essential feature of them all is that banks are warned by them to pay the cheques through the medium of a banker and banking account, and not in cash across the counter to the payee.

The following are examples of the commonest kinds of crossing, the crossing being written or printed from the bottom to the top of the cheque (see illustration, page 195):—

1 Two parallel lines.

2 & Co. The words "& Co."

3 

Two parallel lines with the words "& Co." between. This is the usual form of a general crossing.

4

The usual form of a special crossing, consisting of a general crossing with the name of a bank added.

5 Not Negotiable. An additional crossing to restrict negotiability.

6 A/c. Payee only. A crossing intended to prevent a cheque being passed from hand to hand.

Any one of the foregoing crossings would be sufficient to prevent a payee securing cash for a cheque across the counter of a bank. The person entitled to the cheque may pay it to the credit of his account at his own bank, and by means of his own cheques draw against this account after the bank has collected the amount of the crossed cheque from the bank upon which it is drawn; but he is not entitled to have cash in direct exchange for it, though

banks will occasionally forego their rights and cash a crossed cheque as a convenience for a person well known to them.

A cheque may be crossed either (*a*) specially, or (*b*) generally, and examples of the two kinds of crossing are given on page 198. Nos. 1, 2, 3, and 5 are examples of general crossings, and No. 4 is an example of a special crossing, whilst No. 6 is a qualified crossing, less restrictive in some respects than a special crossing, and more restrictive in others. A cheque is crossed specially when the name of a bank is written across the face of the cheque as part of the crossing; and a cheque so crossed can only be collected by the bank named in the crossing, and therefore it has to be paid in at that bank. The crossing of a cheque is a general one when a bank is not mentioned in the crossing. A cheque bearing a general crossing can be collected by, and paid in at, any bank. The holder of a generally-crossed cheque can add a special crossing if he wishes.

Reasons for Special and General Crossings.

The object of a person who crosses a cheque, either generally or specially, is to diminish the risk of fraud. A person who acquired an open cheque dishonestly might forge the endorsement of the rightful payee and secure payment of the cheque, leaving no trace behind him. If, however, a cheque is crossed, even if it bears but a general crossing, it must be paid through a banking account, and a person who has dealt with a crossed cheque dishonestly can, therefore, be more easily traced. The addition of a special crossing gives a further security against misuse of the cheque. Suppose a cheque were made payable to John Smith and crossed generally. Any person who had a banking account—and one might be opened specially if the stakes were high enough—could forge Smith's endorsement, add, if necessary, his own name, as is usually required by banks when cheques are paid in, pay the cheque to the credit of his (the forger's) account, draw against the amount after the cheque had been collected, and decamp before the discovery of the fraud.

If, however, the drawer of the cheque knows the name of the bank at which Smith keeps his banking account, he can cross the cheque in favour of that bank, and the risk of fraud is reduced. Being crossed in favour of Smith's bank, it can be paid in only at that bank, and the officials at the bank may be supposed to be

sufficiently familiar with Smith's signature to be able to detect any attempt to forge it; and their suspicions would be aroused if a specially-crossed cheque, payable to Smith, were paid in for the account of some other person. If the forger adopts the name of John Smith, and opens an account in this name in order to achieve his object by saying he is the John Smith for whom the cheque is intended, he also runs some risks, for the banks usually wish to know something about the persons for whom accounts are opened.

When a cheque has been crossed it can be reconverted to an open cheque by the drawer writing across the face "Pay cash" and signing this instruction. Where there is more than one signatory to the cheque, all the signatories must sign the alteration.

"Not Negotiable" Crossing.

The crossing "Not negotiable," often found on cheques, needs a little fuller explanation than is usually given, for students frequently, but erroneously, suppose the crossing to mean that a cheque so crossed cannot be transferred from one person to another. A cheque with this crossing can be transferred, but it is not as likely to be transferred because of the restriction of rights imposed by the crossing. The definition of the crossing, that "a person taking a cheque so crossed has no more right to it than the person from whom he got it," though correct, conveys but little meaning to the student who is unacquainted with mercantile law.

The meaning of "Not negotiable" will be more clearly understood if negotiability is first explained. A negotiable instrument has been defined as an instrument "the property in which is acquired by anyone who takes it *bona fide*, and for value, notwithstanding any defect of title in the person from whom he took it." This definition involves the following characteristics of a negotiable instrument, viz.: (1) property in it passes from hand to hand by mere delivery; (2) the holder in due course is not prejudiced by defects of title of his transferor or previous holders; (3) the holder can sue in his own name; and (4) the holder is not affected by certain defences which might be available against previous holders, e.g., fraud, to which he is no party.

A cheque is a negotiable instrument. Consequently, property in it passes by mere delivery, and a person who is a holder in due course is not prejudiced by the defective title of his transferor or

of previous holders. If a person " A " who pays a cheque to " B " has stolen it, " A " has not a good title to the cheque; but if " B " has taken the cheque in a *bona fide* manner and for value, e.g., in payment for goods sold to " A," " B " has a right to receive payment for the cheque from the original drawer, and the loss would fall upon the person from whom " A " stole it, just as the loss would fall upon him if " A " had stolen a shilling from him and spent it at " B's " shop on cigarettes which he smoked.

The crossing " Not negotiable " deprives a cheque of its quality of negotiability. A person taking a cheque with this crossing acquires with it only the same rights as were possessed by the transferor. If the transferor had stolen the cheque, or for any other reason possessed only a defective title to it, the person accepting the cheque from him, even *bona fide* and for value—say, for goods bought by the transferor—would also have a defective title, and would not be entitled to receive payment for the cheque. The person from whom the cheque was stolen would be the last rightful owner—the last one with a good title to the cheque—and he would be the person entitled to payment of the cheque.

A cheque crossed " Not negotiable " may still be transferred from one person to another; but it is not accepted as readily as it would be without this crossing, for the person receiving it can never be perfectly sure that previous holders had an unqualified good title. The crossing " Not negotiable," therefore affords some measure of protection against dishonesty. A person receiving a cheque so crossed should bank it at once.

" A/c. Payee only " Crossing.

The crossing " A/c. payee only " reveals the intention of a drawer of a cheque to compel the payment of the cheque to the account of the payee mentioned on the face of the cheque, and to the account of no other person, thus preventing the payee from passing it on to a third party. It is not certain that the drawer of a cheque can legally limit its use by the payee in the manner intended; but the crossing is thought to add further security to a cheque, since such cheques are less readily accepted by other persons to whom the original payee may wish to transfer them by endorsement.

SOME OTHER MATTERS RELATING TO CHEQUES.

Signatures.

When a person opens a banking account, and intends to draw against his bank balance by means of cheques, he supplies the bank with a copy of his signature, so that the bank may compare the signature on any cheques presented for payment with the signature thus supplied. It is therefore necessary that the bank's customer should exercise care in signing cheques. If John James Smith has given John J. Smith as his usual signature, the bank will be in order in refusing to honour a cheque signed J. J. Smith, or J. James Smith. The signature must agree with the form of signature supplied to the bank.

In the case of some businesses, such as Co-operative Societies, two or more persons are given authority to sign cheques on behalf of the business. The arrangement made with the bank often provides that two or more of a specified number of persons may sign on behalf of the society. Any such authority must be communicated to the bank, in writing, in the form of a copy of the minute passed by the directors or committee, and must be signed by the chairman of the meeting, or the chairman and secretary. The signatures of the whole of the persons authorised to sign cheques must be forwarded to the bank; and the form of signature adopted by each authorised person must be adhered to when he signs a cheque for the society. The authority continues until revoked, and if an authorised person loses his seat on the committee and therefore, presumably, his right to sign cheques, the existing authority should be cancelled by a minute of the committee, which should substitute a fresh authority.

Endorsements.

Before an order cheque can be of value to a second payee the original payee must endorse it; and banks usually require all cheques paid in, or cashed, to be endorsed by the person presenting them for payment or collection. An endorsement is simply a signature on the back of the cheque. In the case of a bearer cheque, the endorsement is required by the bank to show who has presented it for payment. It is required also in the case of an order cheque presented by the original payee, whose endorsement must agree in detail with the payee's name given on the face of the cheque, e.g., if a cheque is made payable to John J. Smith it must be endorsed

John J. Smith—not J. J. Smith. Designations like "Mr." or "Miss" in a cheque can be ignored, and a cheque payable to Mr. John Smith is correctly endorsed if endorsed "John Smith."

Endorsements may be either (*a*) general (or open), or (*b*) special. In a general, or open, endorsement the payee writes his name without any further qualification, and the cheque can then be paid in at the bank or handed on to any other person or series of persons, the only other person required to endorse it being the one who finally pays it into the bank. It should be noted, however, that additional security is given to subsequent holders if every holder endorses it in turn, for each holder has a right to claim payment from all previous endorsers if the drawer or drawee fails to pay the ultimate payee.

In a special endorsement the endorser (i.e., the one who endorses the cheque), who, of course, is himself a payee, mentions the name of a new payee. An example of a special endorsement of a cheque payable to Frank Lee would be—

Pay to John Jones. or Pay to John Jones or order.
Frank Lee. Frank Lee.

In these illustrations Frank Lee is the endorser, whilst John Jones, the new payee, is the endorsee, i.e., the person to whom the cheque is endorsed. Frank Lee can now pay the cheque to his account, cash it if it is an uncrossed cheque, or transfer it to a new payee by endorsing it either generally or specially.

Persons authorised to sign cheques are usually considered entitled, individually, to endorse cheques paid in to the account of a society, but the conditions applying to signatures would also apply to any endorsements of a cheque to a third party, e.g., the required number of signatures would be required for such an endorsement. Persons other than those entitled to sign cheques may be authorised to endorse cheques; and this is convenient in a Co-operative Society where a cashier, as well as the secretary, may be allowed to endorse cheques but not to sign them.

Cheques Endorsed by Signature of Receipt Form.

During the last twenty years a practice has grown up of printing a form of receipt on the face, or back, of a cheque, and the payee is asked to sign this acknowledgment of receiving the cheque before presenting it for payment. The drawer of the cheque is

willing to accept such receipt in place of the ordinary type of receipt; he is saved the trouble of filing a separate receipt; and the receiver of the cheque is saved the trouble of making out a receipt and the expense of sending it to the payer of the account. This form of cheque is therefore convenient for both parties; but some critics express their doubt about the validity of cheques of this type; and the point has never been settled by legal decision. The critics say a cheque is a bill of exchange, and a bill of exchange is defined as an *unconditional* order; but if a cheque says to a banker " pay the following sum of money, provided the receipt at foot hereof is duly stamped, signed, and dated," the cheque ceases to be unconditional and therefore not a bill of exchange within the terms of the legal definition. The probability is that such cheques will be employed to an increasing extent until some person finds it worth his while to raise a case and have the validity of this condition tested. In any case, where cheques of this kind are used the form of words employed should be carefully chosen.

Dishonoured Cheques and other Returned Cheques.

Sometimes a person issues a cheque when he has no funds to meet it; and when the payee's bank presents the cheque for payment to the drawer's bank, it is returned marked "No funds" or " R/D " (refer to drawer). Such a cheque, when returned because of the drawer's inability to meet it, is known as a " dishonoured " cheque. The drawer can be sued for payment on a dishonoured cheque.

Cheques are often returned for reasons other than dishonour. The signature or endorsement may be irregular, or the drawer may, for some reason, have stopped payment of the cheque after issuing it (i.e., he may have instructed his bank not to meet it). He would probably do so if, for example, he found he had made a mistake when writing it out.

When a cheque is not presented until some months have elapsed after it has been drawn it is known as a " stale " cheque; and a bank will usually refuse to meet a cheque which is six months old until a renewed authority is given by the drawer, and it will return it to the payee in order that this renewed authority may be secured by him from the drawer.

Where the words and figures of a cheque do not agree, the words of the cheque decide the amount; but it happens, at times, that a bank will return a cheque that is defective in this respect in order that it may be corrected.

Whatever be the reason, if a cheque is returned by a bank to a payee, the latter should credit the bank with the amount of the cheque (and expenses), just as he debited the bank when it was paid in; and he should debit the drawer of the cheque with the amount of the cheque (and expenses), just as he credited him when the cheque was first paid.

Minor Matters.

A cheque dated for some date ahead is known as a post-dated cheque.

Where the drawer, or drawers, of a cheque alter the amount of a cheque, the alteration must be initialled by all the signatories.

Care should be exercised in making out a cheque, so that the amount cannot be easily altered. The words (and figures) six, seven, eight, and nine, for example, can easily be altered to sixteen, sixty, etc., and no space should be left between these words (and figures) and the next one, so that additions cannot easily be inserted.

In order to prevent unauthorised persons from altering the amount of cheques, it is not unusual for drawers of cheques to perforate the amount of the cheque on each cheque, besides writing the amount, or to write across the cheque "Not above ——— pounds," and insert in words the number of pounds next higher than the amount of the cheque, e.g., "Not above seventy pounds" for a cheque for £69. 14s. 6d.

Cheques are, of course, intimately associated with the banking account; but as this chapter is already a long one, the procedure followed when "paying in" cheques at the bank will be explained in the next chapter, in which banking matters, so far as they affect the elementary student, will be the subject of consideration.

SUMMARY.

Cheques are a convenient medium for effecting payments. They belong to the category of documents known as "bills of exchange." A bill of exchange is defined as "an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a sum certain in money to, or to the order of, a specified person or to bearer." A cheque may be defined as "a bill of exchange drawn on a banker and payable on demand"; or as "an order upon a banker to pay a specified sum of money to a person named, his order, or to bearer." Cheques differ from other bills of exchange in being always payable on demand and not requiring acceptance.

There are three parties to a cheque: the drawer, the drawee, and the payee. All cheques must bear a twopenny stamp, affixed by the drawer or on his behalf.

Cheques may be either bearer cheques or order cheques, and they may be either open (i.e., uncrossed) or crossed. Bearer cheques may be paid to any person, and order cheques may be paid only to the person mentioned as payee on the face of the cheque, or to some person after the original payee has endorsed it. Open cheques may be cashed at the counter of the drawee bank; but crossed cheques must be paid through a banking account. If they are crossed generally they can be paid in at, or collected by, any bank; but if they are crossed specially they can only be collected by the bank mentioned in the crossing. Crossing a cheque reduces the risk of fraud. A "Not negotiable" crossing takes away the negotiability of a cheque, and a person acquiring such a cheque acquires with it only the same rights as were possessed by the person from whom he received it. Such a cheque is still transferable, but with this limitation of negotiability. Cheques are sometimes crossed "A/c. payee only," the purpose of this crossing being to limit payment of the cheque to the account of the original payee.

The signature on a cheque must correspond in regard to signatories and form of signature with the authority given to the bank. Endorsements may be general (which enables any person to negotiate the cheque), or special (which limits the power of negotiating the cheque to the person mentioned in the endorsement).

A cheque is dishonoured when the bank refuses to pay it because the drawer has no funds. Such cheques are returned to the payee last mentioned in the endorsement, i.e., the person who paid it in for collection. Cheques are often returned for reasons other than dishonour, e.g., discrepancy between figures and words. When a cheque is returned for any reason, the drawer should be debited and the bank credited with the amount of the cheque and expenses incurred. Stale cheques are cheques which have not been presented for some time after the date mentioned on the cheque. Post-dated cheques are cheques dated for a date ahead of the date upon which they are made out.

QUESTIONS AND EXERCISES.

1. What is a cheque? Prepare a cheque for £20, using any names you may care to choose, and explain your definition by reference to the cheque you prepare.

2. What are the class names of the three parties to a cheque? Draft a cheque for £50 and indicate the three parties in the cheque you prepare.

3. Into what four principal classes may cheques be divided? Into how many of these classes must a cheque fall, and why?

4. Explain carefully the difference between an order cheque and bearer cheque. How can an order cheque be converted into a bearer cheque, and a bearer cheque into an order cheque?

5. Explain carefully the difference between an open cheque and a crossed cheque, pointing out, also, the difference between a special crossing and a general crossing.

6. Who can convert an open cheque into a crossed cheque, and a crossed cheque into an open cheque ? What procedure must be followed in each case ?

7. Prepare a bearer cheque for £50, with John Smith as drawer and Frank Lord as payee. Change it to an order cheque, and cross it specially. If any other name is required, use that of the Co-operative Wholesale Society Ltd.

8. What advantages are gained by crossing a cheque ?

9. Explain carefully the meaning and effect of the crossing "Not negotiable."

10. What precautions have to be observed in signing and endorsing cheques ? What are the two kinds of endorsement, and how do they differ in form and in effect ?

11. Explain "Stale cheque," "Post-dated cheque," "Dishonoured cheque," "R/D," and "No funds."

12. What methods are adopted to deter people from attempting to alter the amount of a cheque ?

13. Who is entitled to sign and endorse cheques ?

14. Prepare an order cheque with yourself as drawer and drawee; and endorse it specially.

CHAPTER XVI.

BANKING MATTERS.

SOME ADVANTAGES OF A BANKING ACCOUNT.

ALL business houses and many private individuals find it essential to have a banking account. The existence of such an account is of great convenience to them. In the first place, they do not need to keep by them large sums of money received in the course of their business, e.g., shop takings. These amounts can be taken to the bank, which possesses better facilities than a business house or private individual for storing and protecting quantities of money, and the depositor will receive interest upon his deposits. In the second place, a firm often receives payments in the form of cheques, and these cannot be dealt with except through a bank, and it is a great convenience to be able to pay them into a bank for collection on behalf of the recipient. In the third place, a banking account linked with a cheque book enables the one who has opened the account to make payments much more conveniently and cheaply than he otherwise could. If, for example, a person had to pay a debt of £30 he could send or take coin, Treasury notes, or bank notes to his creditor, or he could go to the Post Office and obtain postal orders or a money order; but these methods would be inconvenient and costly. If he had a banking account and cheque book he could make out a cheque in two minutes, send it to his creditor in the remotest village in Britain, and the transaction would cost him but the value of the stamp on the cheque (2d.) and the small amount charged by the bank for its services. The cheque can be made out for any amount, whilst the amount for which a money order is issued is limited, and postal orders are only issued for round sums. As a payee, if a business house received all its payments in cash much time would be taken up in counting it. Cheques, therefore, economise the

use of money, and are a convenience to both payer and recipient. The sender of a cheque can cross it to give security, and if he wishes to defer payment for a day or two he can post-date the cheque.

Deposits.

When the holder of a cheque wishes to pay it to the credit of his account he endorses it and presents it at the bank counter along with a slip known as a "paying-in slip." The form of paying-in slip is not the same for all banks, and the one shown overleaf, employed by the Co-operative Wholesale Society's bank, will serve to illustrate the general features of such a document. The bank cashier retains the slip and initials a counterfoil, which remains in the hands of the depositor. Coins, bank notes, Treasury notes, postal orders, and money orders are similarly entered on the paying-in slip. The paying-in slip serves as an interim receipt until the Bank Book or Bank Pass Book (both names are given to the book) is entered up.

Bank Pass Book.

The Bank Book, or Bank Pass Book as it is often called, is a book containing an account of the customer's transactions with the bank. The entries in it are made by the bank, and it is taken to the bank frequently to be entered up. The book is often a copy of the customer's account as it appears in the books of the bank, with payments to the bank entered on the Cr. side and payments by the bank on the Dr. side, for the customer is the bank's creditor for amounts paid into the bank, and debtor for amounts paid out by the bank; but some banks (including the banking department of the Co-operative Wholesale Society) show the account as the Bank Account appears in the customer's books, with payments to the bank on the Dr. side, and payments by the bank on the Cr. side.

The first-mentioned method sometimes puzzles the young clerk and student, who cannot understand why the entries appear in the Bank Book on the opposite sides from those upon which they appear in the Cash Book. He must realise that the bank and the customers see the same transaction from different sides. When a payment is made by cheque and entered on the credit side of the Cash Book, the entry shows the bank to be a creditor. The bank recording the same transaction in its books debits the Society with the amount paid. Both parties are right, for the transaction is one in which the bank (being the payer) is a creditor, and the society

COPY OF PAYING-IN SLIP.

Credit.....*in account with*

CO-OPERATIVE WHOLESALE SOCIETY LTD., BANKERS, MANCHESTER.

.....*192*

Bills, and Cheques on London and Country Banks.	Postal Orders and Cheques on Manchester Banks.	Cheques on C.W.S. Bank.		
			BANK OF ENGLAND NOTES	
			SCOTCH AND IRISH NOTES (at 10 days' responsibility)	
			TREASURY NOTES ..... £1.....	
			10s.	
			GOLD ..... Sovereigns	
			Half Sovereigns ...	
			SILVER, &C.	
			TOTAL CASH	
			TOTAL OF CHEQUES ON C.W.S. BANK	
			TOTAL OF CHEQUES ON MANCHESTER BANKS AND POSTAL ORDERS.....	
			TOTAL	
			TOTAL OF BILLS, AND CHEQUES ON LONDON AND COUNTRY BANKS	£

Signature of person paying in.....

is a debtor to the bank for the amount which has been paid on its behalf. The Bank Pass Book shows the society's account in the bank's books, where everything paid for a customer makes that person a debtor, and everything received on his behalf makes him a creditor, and the society's Bank Account shows the bank as a customer of the society, with every payment to the bank as a debit entry, and every payment by the bank as a credit entry. The transactions are looked at from different sides by the payers and receivers. When the bank is a creditor the society must be a debtor, and when the society is a creditor the bank must be a debtor.

Bank Reconciliation Statement.

If the society's Bank Account, as recorded in its own books, is compared with the Bank Pass Book it will often be found that there is apparently a discrepancy in dates. Cheques paid out, according to the society's books, on, say, January 28th, are not entered in the Pass Book as paid by the bank until, say, February 5th. This is due to the cheques sent out not being presented immediately by the payee, and to time being taken to "clear" cheques sent to other towns. On the other side of the account, cheques received by the society are not always paid in at the bank on the date of receipt.

It is often necessary to check the bank balance as shown in the society's books with the balance as shown in the Bank Pass Book. The causes mentioned above interfere with an exact correspondence of the two totals, and, in order to show that there is no difference that cannot be accounted for, it is customary to prepare a "Bank Reconciliation Statement." Beginning with the balance shown in one book (it does not matter which) allowance is made by addition and subtraction for the cheques received and entered in the Cash Book but not deposited at the bank, and for the cheques sent out and entered in the Cash Book but not yet returned to the bank. The resultant amount should then agree with the balance as shown in the Bank Book if the Cash Book balance was the commencing amount, or with the Cash Book balance if the Bank Pass Book balance was the commencing amount. Bank interest, etc., should appear in both books before the Reconciliation Account is commenced. In the following example, the

balance to commence is the bank balance as recorded in the society's books:—

	£	s.	d.
Balance at bank, as per Cash Book	1200	0	0
Add cheques paid out and not yet presented at bank—			
W. Rankin £50 0 0			
Wessex Farmers 20 0 0			
Leicester Producers 80 0 0			
	150	0	0
	£1350	0	0
Deduct cheques in hands of secretary not yet paid to bank—			
Co-operative Insurance Society £30 0 0			
W. Smith 5 0 0			
A. Lord 10 0 0			
	45	0	0
Balance at bank, as per Bank Pass Book	£1305	0	0

Bank Overdraft.

It frequently happens that a society is wanting, for a short or longer time, an amount of ready money in excess of its resources for paying its accounts. To meet this need it may sell shares, withdraw loans, or realise other assets, or it may approach the bank and ask for a loan; and if the loan is agreed to, the rate of interest and other conditions will be arranged. Such loans do not usually take the form of a round sum of money placed to the credit of the borrowing society, but permission for the borrower to issue cheques in excess of its balance at the bank for any amount up to the maximum agreed upon. The actual amount owing to the bank at any moment is known as the "bank overdraft." Usually a bank requires some security for an overdraft, and this security generally takes the form of a depositing of deeds of property, or share certificates, with an undertaking to create a legal mortgage or to transfer the ownership of the property to the bank if the conditions attached to the overdraft are not complied with.

Deposit Accounts and Current Accounts.

The converse of the overdraft is the credit balance of a society at the bank. Such balances may be of different types, according to the length of notice required for repayment by the bank. Where the society has an account into which it is frequently paying deposits, and from which it is frequently withdrawing, the account

is known as a Current Account. This is the kind of account used by all business people.

The rate of interest paid upon balances in the Current Account is very low; some banks pay no interest at all upon them. The reason why the banks pay little or no interest upon these balances is that they can make little use of them because they are payable, and may be demanded, at any hour of any day. The banks cannot earn much with them, and therefore pay little interest upon them.

Efficient secretaries therefore watch the bank balance very closely. They must maintain a balance sufficient to enable the society to meet all claims made against it; but any cash in excess of the amount required for this purpose can be utilised to secure a higher return than Current Accounts do. One way of utilising this surplus is to invest it in shares or loans in the Wholesale Society, or in some similar investment; but another way of dealing with the surplus, and retaining it in a more liquid form, is to transfer it to a Deposit Account at the bank. If a bank knows that an amount deposited with it will not be withdrawn for three, six, or twelve months, or until the expiry of a fairly long notice, it can make use of it and obtain a return upon it which will make possible a payment to the depositor of a higher rate of interest than can be paid upon Current Account balances, the rate of interest varying with the length of notice agreed upon and with the prevailing rate of the Bank of England. In cases of emergency a bank is usually willing to waive its rights in regard to notice of withdrawal, but the depositor in such a case has to sacrifice some interest that he would otherwise have gained.

Bank Charges.

A bank must be paid either directly or indirectly for the services it renders. In some cases the charge is a percentage upon turnover, e.g., 2s. 6d. per £100 of cheques passed through. In other cases no definite charge is made, but the customer is required to maintain a credit balance of a specified amount and no interest is paid upon it; the free use of this amount is the bank's payment for its services. When a Banking Account is opened, terms should be arranged in regard to both the rate of interest to be paid and the charges for banking services. The C.W.S. bank charges for banking services vary according to turnover, with a maximum

charge of 1s. 6d. per cent to members and 2s. per cent to non-members. The bank does not exist for the purpose of making large profits, and any surplus remaining after providing for the excellent rates of interest it pays, is credited to the reserve fund. It only remains to be added, in concluding this chapter, that many societies act as agents for the C.W.S. bank, and are paid a commission for this service.

SUMMARY.

A Banking Account economises the use of money and, in conjunction with a cheque book, is a great convenience to both payers and receivers of payments. When cheques, notes, coins, etc., are being paid in at the bank it is usual to enter the amounts upon a slip known as a paying-in slip. The bank cashier keeps the slip and initials a counterfoil. This initialled counterfoil serves as an interim receipt pending the entry of the amount in the Bank Pass Book. Cheques must be properly endorsed before being paid in to the bank.

The Bank Pass Book is a record of the customer's transactions with the bank, and is made up by the bank. Often it is a copy of the customer's account in the books of the bank, and the entries are therefore on the opposite side from the same entries in the society's Cash Book. In some pass books, however, the entries are made by the bank on the same side as that upon which they appear in the society's books.

Cheques are not always paid in to the bank by a society on the day they are received, and cheques sent out by the society are not presented in some cases for several days. Therefore, a difference is frequently revealed between the bank balance shown in the society's books and the balance shown in the Bank Pass Book. To reconcile these two balances a Bank Reconciliation Statement is prepared.

A bank overdraft exists when a society has been permitted by the bank to send out cheques for the meeting of which it has no funds of its own. A bank usually requires security for an overdraft.

There is a difference between Current Accounts and Deposit Accounts at a bank. A Current Account is one through which there is a constant flow of funds, it is the account a business man uses. Little or no interest is paid upon Current Account balances, because they may be called for at any moment and the bank is unable to use them. Where a society has more funds at the bank than it requires for Current Account purposes it frequently transfers a portion to a Deposit Account, which must remain at the bank for a definite period or be subject to a long notice for withdrawal. The bank is able to make better use of funds to which there is greater fixity, and is therefore willing to pay a higher rate of interest upon Deposit Account balances than upon Current Account balances.

Banks charge for their services, indirectly or directly. A common method is to charge a percentage commission upon the amount of the cheques passing through the account. Another method is to require customers to maintain a credit balance of a minimum amount upon which no interest is paid, and the banks accept the free use of this balance as the payment for the banking services rendered.

QUESTIONS AND EXERCISES.

1. Prepare a bank paying-in slip and enter some appropriate items.

2. What is the Bank Pass Book ? What does it contain and who enters it up ?

3. On which side of (*a*) the Cash Book and (*b*) the Bank Pass Book would you expect the following items of the Rockwell Cradle Society Ltd.:—

(1) Received cheque for £80 and banked it.

(2) Paid John Smith £30 by cheque.

(3) Withdrew from bank £20 for wages.

(4) Interest on bank overdraft, £5.

4. What is a Bank Reconciliation Statement ? Why is it necessary to prepare one, and from what sources are the data for it drawn ?

5. The bank balance as per a society's cash book at December 31st, 1925, was £1,200, and as per Bank Pass Book £1,400. Cheques amounting to £300, entered in the Cash Book, were in hand and not paid into the bank, whilst cheques amounting to £500 had been paid out but were not yet presented at the bank. Prepare a Bank Reconciliation Statement.

6. The bank balance of a society, according to the Cash Book, was £1,000 at the end of last year. The secretary had, at the time of the making up of the books, cheques for £500 which came after the bank was closed but were entered in the Cash Book as received. Cheques amounting to £800 had been sent out and not presented at the bank. What would you expect to be the balance according to the Bank Pass Book ?

7. A society's Bank Pass Book showed the society to have an overdraft of £200, whilst cheques amounting to £200 were outstanding, and the secretary had cheques amounting to £500 in hand and entered in the Cash Book. What would you expect to be the balance according to the Cash Book ?

8. In a Bank Reconciliation Statement the balances as per Cash Book and Bank Pass Book were £500 and £600 respectively. If the cheques outstanding amounted to £250 what would be the amount of cheques in hand not paid into the bank ?

9. What is a Bank Overdraft ? Comment upon the statement of a lady who, when reminded by her banker that she had a large overdraft which he would like her to reduce, said: " Pass my cheque book and I will make out a cheque for the amount."

10. How are bankers paid for their services in maintaining banking accounts for their customers ?

11. How do Current Accounts differ from Deposit Accounts ? Why is it possible to secure a higher rate of interest upon Deposit Accounts ?

12. What advantages are derived from keeping a Banking Account and using a cheque book ?

SOME ABBREVIATIONS EMPLOYED IN COMMERCIAL DOCUMENTS AND ACCOUNTS.

@ At.
A/c. Account
Acct. Account.
Adv. Advice.
Ad. Val. Ad valorem—according to value.
b/d Brought down.
B/E Bill of Exchange.
b/f Brought forward
B/L Bill of Lading; Bought Ledger.
B/S Balance Sheet; Bill of Sale.
Bal. Balance.
C/ Contra.
c/d Carried down.
c/f Carried forward.
c/o Care of.
C.P. or Carr. P. Carriage Paid.
C.F. or Carr. Fwd. Carriage Forward
C. B. or C/B. Cash Book.
C/N Credit note.
Cap. Capital.
Chq. Cheque.
Co. or Coy. Company.
Cr. Credit or Creditor.
Ctge. Cartage.
C.I.F. Cost, Insurance, and Freight.
C.O.D. Cash on Delivery.
D/A Deposit Account.
D.B. or D/B. Day Book.
D.E. Double Entry.
Deb. Debenture
Del. Delivery.
Deld. Delivered.
Depn. Depreciation
Dis. Discount.
Div. Dividend.
Dr. Debtor.
E.E. Errors excepted.
E. & O.E. Errors and Omissions excepted.
ex. cont. Out of Contract.
ex. div. Without dividend.
F.A.S. or f.a.s. Free alongside ship.
F.O.B. or f.o.b. Free on board.
F.O.R. or f.o.r. Free on rail.
Fol. or Folio The page or pages comprising the two sides of an account.
Imp. Led. Impersonal Ledger.
I.A.B. Invoice Analysis Book.
I.O.U. I owe you.
Inst. Instant; current month.
Int. Interest.
Inv. Invoice.
Inv. Rev. Investment Revenue.
L.B. & F. Land, Buildings, and Fixtures.
Led. Ledger.
Ld. or Ltd. Limited.
M.O. Money Order.
n/f No funds (banking).
% Per cent.
o/d Overdraft; overdrawn.
p. Page.
pp. Pages.
p.p. Per pro; on behalf of.
Pd. Paid.
P.C. Petty cash.
P.O. Postal order.
P.O.O. Post Office order.
P.B. or P/B Purchases Book.
P.L. or P/L Purchases Ledger.
per ann. Per annum.
per For, or by.
per pro or p.p. On behalf of.
pro tem. For the time being.
Prox. Proximo; next month.
q.v. Quod vide; which see.
R/D Refer to Drawer (cheques).
Rev. Revenue.
S.B. or S/B Sales Book.
S.L. or S/L Sales Ledger.
Sh. Led. Share Ledger.
ss. Steamship.
Stk. Stock.
T.B. or T/B Trade Balance.
Ult. Ultimo; last month.
x.d. or ex. div. Without dividend.

SOME TERMS USED IN CONNECTION WITH COMMERCIAL DOCUMENTS AND ACCOUNTS.

ACCEPTANCE.	A bill of exchange when accepted is often described as an acceptance.
ACCOUNT.	A record of one or more business transactions usually in terms of goods or £ s. d.
ADVICE OR ADVICE NOTE.	A document notifying the dispatch of goods or the performance of some other act affecting the recipient of the document.
ANNUAL RETURN.	A document containing a summary of a Co-operative Society's activities for the past year that has to be forwarded annually to the Registrar of Friendly Societies. It has to be signed by a Public Auditor.
ANTE-DATE.	To ante-date a document is to place upon it a date earlier than the date upon which it is made out.
AUDIT.	The examination of the books and accounts of a business, along with the documents relating to these books and accounts, with a view to certifying the accuracy of the books and the balance sheet in which the accounts are summarised.
BALANCE.	The difference between the two sides of an account.
BALANCE SHEET.	A balance sheet is a sheet of balances, and a Co-operative Society's balance sheet includes the balances which are summarised in the following accounts that constitute the balance sheet: Cash Account, Trading Account, Investments Revenue Account, Final Revenue Account, Disposable Balance Account, and Statement of Liabilities and Assets.
BANKRUPT.	A person who has been adjudged a bankrupt after a bankruptcy petition has been filed either by the person himself or a creditor.
BANK RATE.	The rate of interest charged by banks. The term also refers to the Bank Rate (decided weekly) of the Bank of England, whose rate is the basis for the rates charged by other banks. It is the minimum rate charged by the Bank of England for loans on the best security and for discounting the best class of bills.
BILL.	The term "bill" is often used instead of invoice or account, e.g., the "grocer's bill," the "gas bill," but its general meaning in commerce is a bill of exchange, e.g., a bill broker is one who deals in bills of exchange.
BILL OF EXCHANGE.	A document by means of which one party (the drawer) requests a second party (the drawee) to pay a sum of money to a third party (the payee). The drawee signifies his agreement by "accepting" the bill, i.e., by writing the word "accepted" across the face of the bill and signing it. He usually adds the name of the bank where he will meet the bill. Bills of exchange require to be stamped. (See definition, page 192.)

BILL OF LADING.	A document drawn up and signed by the master of a ship or his agent acknowledging the receipt of goods on board the vessel. It constitutes a document of title to the goods.
BONDED STORES.	Warehouses under Government supervision where dutiable goods may be stored. The duty is not payable until the goods are withdrawn from bond, and importers and manufacturers of dutiable goods therefore find it convenient to store goods in bonded stores (the use of which is, however, a charge upon the user) instead of paying the duty immediately the goods in a dutiable condition come into their ownership.
BONUS.	An allowance or grant. A bonus on wages is usually a partial allocation of the surplus or profits of a business among the employees of the business in proportion to the wages paid to them.
BOOK DEBTS.	The debts owing to a business as recorded in the books of that business.
CAPITAL.	The money invested in a business. In a Co-operative Society it consists principally of share capital provided by members, and loan capital provided by members and others.
CAPITAL EXPENDITURE.	Expenditure upon land, buildings, machinery, fixtures, etc., which are employed in producing the revenue of a business and, subject to wear and tear, remain in existence after the revenue has been produced.
CHEQUE.	A bill of exchange drawn upon a banker and payable on demand. (See definition, page 192.)
COMMISSION.	A payment to an agent for services rendered. It is usually calculated as a percentage on the business transacted.
COMPOSITION.	When a bankrupt pays a percentage of his debts in lieu of the full amount, e.g., 5s. in the £, it is said to be a composition.
CONSIGNEE.	A person to whom goods are sent.
CONSIGNOR.	A sender of goods.
COST, INSURANCE, AND FREIGHT (C.I.F.).	A price or charge quoted c.i.f. includes the cost of the goods, the insurance of the goods, and the freight or carriage of the goods. The term is principally used in connection with goods carried overseas, and can be contrasted with a f.a.s. (free alongside ship) or with a f.o.b. (free on board) price or charge, which is the cost (*a*) delivered to the ship's side or (*b*) delivered on board the ship, the insurance for the voyage and the cost of the voyage being borne by the purchaser in both these cases.
CREDIT NOTE.	The converse of an invoice. Instead of charging a person with an amount, it credits a person with an amount, e.g., for an overcharge or for an allowance.
CREDITOR.	A person to whom money is owing, or a person who has supplied goods or services, or has paid money, to another person, or a person whose account is being credited.
CUM. DIV.	With dividend. Shares bought cum. div. are bought with the right to any dividend that may be due upon them.

CURRENT ACCOUNT. A running account. An account which is being continuously debited and credited. A current account at the bank is one to which payments are being constantly added and from which payments are constantly being made. It contrasts with a deposit account (q.v.). (See pages 212 and 213.)

DAYS OF GRACE. Three extra days allowed beyond the time stated in the bill for the meeting of a bill of exchange drawn to be payable at a future date.

DEBIT AND DEBIT NOTE. To debit is to charge. To debit an account is to make an entry on the debit side of an account. An invoice is a debit note, since it contains a charge, but the term "debit note" is generally employed to mean something other than an invoice, e.g., a note charging a firm with a loss it has caused the sender, or a note charging a purchaser with an amount undercharged on an invoice already sent.

DEBTOR. A person who owes goods or money to another person, or one who has received goods, money, or services from another person, or one whose account is being debited.

DEMURRAGE. A charge made by a railway company or other transport agent for the use of trucks or for other expenses resulting from goods not being cleared quickly after arrival to the order of the consignee.

DEPOSIT ACCOUNT. An account recording money left on deposit for an agreed period or subject to an agreed notice, and not subject, like a current account, to frequent alteration through additions and withdrawals. (See pages 212 and 213.)

DEPRECIATION. The decline in value of an asset due to wear and tear, waste, decay, or obsolescence. It is usually provided for in a business by a charge in the Revenue Accounts. (See pages 40–41 and 171–174.) Special depreciation is an allowance beyond the customary rates. (See page 174.)

DISCOUNT. An allowance at an agreed rate from the sale price. Three important classes of discount are trade discount, prompt cash discount, and ordinary discount for monthly or quarterly payments. (See pages 93 and 94.) When shares or stocks are selling at less than the amount paid up upon them they are said to be at a discount.

DISCOUNTING A BILL. It often happens that the payee of a bill of exchange desires to have payment in advance of the date when the bill will be met by payment, and he takes it to a bank or bill broker, who will advance the amount of the bill less the charge for interest for the period the bill has to run. This is known as discounting the bill.

DIRECT COSTS. Costs, such as wages in a hairdressing or window-cleaning department, that cannot be considered manufacturing costs or selling expenses, but vary directly with work done. The term is also employed in a general sense to cover all costs that vary with output in contrast with supplementary or overhead costs that do not vary with output.

DISHONOURED. A bill of exchange or cheque which is not paid when presented for payment is said to be dishonoured.

DIVIDEND.	A distribution of the surplus or profit of a business either in proportion to purchases (as in a Co-operative Society) or in proportion to share capital (as in a company). When the estate of a bankrupt is being distributed the term "dividend" is employed to describe the amount which the creditors receive.
DRAWEE.	As employed in connection with bills of exchange and cheques, the term means the person upon whom the request is made to make the payment, e.g., in the case of a cheque the bank is the drawee.
DRAWER.	As employed in connection with bills of exchange and cheques, the term means the person who draws up the document requesting the drawee to pay a sum of money.
ENDORSEE.	One to whom a document is transferred by endorsement.
ENDORSER.	One who endorses a document.
ENDORSEMENT.	A signature (usually on the back) on a cheque, bill, or other document authorising transfer of ownership or collection by another person.
ERRORS AND OMISSIONS EXCEPTED (E. & O. E.).	Invoices sometimes bear this inscription, which means that the charges of the invoice are subject to amendment if any error or omission is subsequently discovered.
EX. DIV.	Without dividend. A purchaser buying shares or stocks ex. div. does not acquire the right to any dividend due upon them. (See cum. div.) (Shares are often bought between the date upon which the accounts are made up and the date of payment of the dividend due for the period covered by those accounts.)
FREE ON BOARD (F.O.B.).	(See cost, insurance, and freight.)
FREIGHT.	Goods carried by land, sea, or air are often described as freight, e.g., the freight of a ship. The term also means the charge for carrying the goods.
GENERAL CHARGES.	Charges which are incurred for one or more departments in general, and cannot be directly charged to any one department. They are usually distributed over the departments upon some definite basis.
GOODS AND STOCK CHARGES.	Charges incidental to goods and stock that add to the purchase price before the process of selling commences.
GOODWILL.	Advantages attaching to a business by reason of its reputation and its long and well-established trade. It is not represented by material assets in the balance sheet, but depends in a large measure upon the personality and capacity of its owners. A person buying a business will usually pay something for the goodwill, for he would otherwise have to create a connection and reputation, and this would take time, and probably involve a considerable outlay in advertising, etc.
I.O.U.	I owe you. An acknowledgment of a debt for money borrowed, but without any promise to repay.
IMPERSONAL LEDGER.	A Ledger in which the accounts do not relate to persons, e.g., Goods Account, Delivery Expenses.
INSOLVENT.	A person is insolvent when his liabilities exceed his assets and he is unable to pay his debts in full.

INTEREST. The amount payable by agreement for the loan of money. It should be distinguished from dividend.

INVESTMENT. The purchasing of shares or taking up of loans constitutes investment in the narrow sense, but the term is also used in a wider sense to include purchases of land, buildings, machinery, etc.

INVESTMENTS REVENUE. Revenue derived from investments as distinguished from revenue derived from trade.

LEAKAGE. The term is employed in the Co-operative movement to indicate the difference between the quantity of goods received by a shopman and the quantity of goods accounted for when these goods are sold. It arises through (1) the inevitable slight loss in breaking up bulk quantities for sale in small quantities, shrinkage, etc., and (2) avoidable wastage and carelessness. In a leakage account the shopman is debited with the quantity of goods delivered to him, and these are charged at retail price: he is credited with the money received for the sale of these goods and with any goods left unsold. Allowance is made for changes in prices and other relevant factors, and the difference of the account is the leakage. It is usual to establish a percentage standard as unavoidable leakage, and to investigate any cases where the leakage is in excess of this percentage.

LEDGER. A book in which all the entries referring to one person or one account are collected on one page and are arranged in Dr. and Cr. form.

LIEN. A claim upon certain property in satisfaction of a debt.

LIQUID CAPITAL. Capital not locked up in buildings, stock, investments, etc., that may therefore be paid out quickly. Capital in the form of a bank balance is liquid capital. Capital in the form of shares that may be sold at short notice or loans that may be withdrawn at short notice is less liquid than a bank balance, but more liquid than the capital invested in the form of buildings and stock of goods.

LIQUIDATION. The process of winding up a business is known as liquidation. It does not necessarily imply bankruptcy, and may be voluntary or compulsory.

MATURITY. A bill of exchange or a debt reaches maturity at the arrival of the date upon which it has to be met.

MORTGAGE. A mortgage is a pledge of an asset (usually real property) in return for a loan. Thus a house may be mortgaged—the deeds of the house are pledged as security for a loan. The person who borrows is a mortgagor, and the one who lends is a mortgagee. A mortgage differs from a pawn in that the pledger retains custody and use of the asset in the case of a mortgage, and does not retain the custody or use of the asset (though he still remains the owner) where it is pawned. (Compare the mortgaging of a house and the pawning of a watch.) A legal mortgage involves the transfer of the property when certain conditions attached to the loan are broken. An equitable mortgage, which is usually accompanied by the deposit of deeds, is an agreement to complete a legal mortgage when required after certain conditions are broken.

NEGOTIABLE AND NOT NEGOTIABLE.	A document the property in which (and the property represented by it) passes by delivery. A cheque is a negotiable document. A person who receives it in good faith and for value is entitled to receive the money which it represents, although he may have obtained the cheque from a person who stole it. If a cheque is crossed "Not negotiable," however, a person taking it will have no more right to it than the person from whom he accepts it, and if the transferor had no right to the cheque, the transferee has no right to it. A "Not negotiable" document is still transferable, but with the limited right explained above.
NET.	The remainder after something has been taken away from an original amount, e.g., net weight is the gross weight less the tare weight, and net surplus is the gross surplus less certain charges which have been deducted from it.
NET CASH.	The amount of an invoice or statement after all discounts have been deducted from it, and immediate cash payment of it is to be made, is said to be a "net cash" amount. Net cash also means the amount of cash left after all charges have been paid out of it.
OUTSTANDING ACCOUNT OR BALANCE.	The balance of an account owing.
OVERDRAW AND OVERDRAFT.	By arrangement with their bank, firms are often allowed to issue cheques for an amount in excess of their credit balance at the bank, and the bank pays these cheques, a debit balance against the issuing firm then being created. Such an excess amount or debit balance is described as an overdraft, and a firm issuing cheques in excess of its credit balance is said to have overdrawn its account.
OVERDUE.	An account not paid at the due date is said to be overdue.
PAR.	When stocks and shares are selling for their face value or paid-up amount they are said to be "at par."
PASS BOOK.	Often, and more correctly, described as "bank pass book." A book issued to its customers by a bank, and containing a record of the transactions between the customer and the bank. It takes the form of a copy of either (*a*) the customer's account in the bank's Ledger, or (*b*) the bank's account in the customer's Ledger (see pages 209–211).
PERSONAL LEDGER.	A Ledger in which the accounts all relate to transactions with persons, and show the relationship of the business to those persons.
PLANT.	Machinery and similar productive machinery employed for carrying on the operations of a business.
POLICY.	The document issued by an insurance society or other insurer to an insured person. It contains particulars and conditions of the insurance effected.
POSTING.	The entry in the Ledgers, or subsequent accounts, of the items contained in the books of primary entry.
POST-DATE.	To insert in a document some date in advance of the date upon which the document is drawn up.

PREMIUM. (*a*) The payment to an insurance society or company (usually annually) of a sum of money in return for a promise to pay a sum of money if, and when, certain events occur.

(*b*) When stocks and shares are selling for more than has been paid upon them, or for their face value if they are fully paid, they are said to be "at a premium." They are sometimes issued at a premium.

PRICE CURRENT. A list of prices current at the date of preparation. It must not be confused with a quotation which is an offer to sell at the prices stated.

PRICE LIST. According to the wording employed, this may be either a statement of prices current or an offer to sell at the prices stated.

PRINCIPAL. A sum of money invested or lent, so called to distinguish it from the interest payable upon it.

PUBLIC AUDITOR. A person appointed to the list of Public Auditors by the Government. Addition to the list is by appointment, not by examination, though the Government satisfies itself that the persons appointed are qualified. Every Industrial and Provident Society must have its accounts audited by a Public Auditor.

QUOTATION. An offer to sell specified goods or do certain specified work at a specified price.

RECONCILIATION STATEMENT. A statement prepared to show that two amounts which differ are not really in conflict, but can be reconciled by making allowance for certain factors, e.g., a Bank Reconciliation Statement reconciles the bank balance in the Cash Book with that in the Bank Pass Book by taking into account cheques in hand not paid into the bank, and cheques paid out but not yet returned to the bank (see pages 211 and 212).

REGISTRAR OF FRIENDLY SOCIETIES. Industrial and Provident Societies (which include Co-operative Societies) have to be registered with this official in London or at the branch offices in Scotland and Ireland. An Annual Return and copies of balance sheets have to be forwarded to him or his assistants, and alterations of rules have to be registered with him.

REMITTANCE. An amount, or a payment of an account, sent by one person to another.

RESERVES AND RESERVE FUND. A surplus of assets over liabilities is a reserve. The Reserve Fund is so named because the amount credited to it represents the amount of this surplus—the real reserve. There are various Reserve Funds, e.g., General Reserve Fund and Dividend Equalisation Fund (see pages 177 to 180). Reserves are also created against expected losses or charges, e.g., a reserve against bad debts.

SELLING EXPENSES The expenses incidental to the selling of goods in a retail distributive department (see page 77).

SERVICE DEPARTMENTS. Departments such as hairdressing, window-cleaning, laundry, and transport, which are neither productive departments (since they do not produce anything) nor distributive departments, but provide a service.

SET OFF.	To apply one debt or one amount against another, e.g., to set off £5 from a member's share capital against a debt owing by that member for goods.
SOLVENT.	A person or firm is solvent when the assets equal or exceed the liabilities.
STOCK.	Goods on hand for sale, or raw materials and semi-manufactured goods, are usually described as "stock" or "stock-in-trade," whilst fixtures and similar assets are often described as "fixed stock."
STOCKTAKING.	The recording and checking of the quantity and value of goods on hand is described as "stocktaking." The subject is discussed in Chapter XIV.
SUSPENSE ACCOUNT.	An account created to record some item it is desired to hold in suspense, e.g., if a society has lost £1,000 by theft or a fire, instead of charging the amount as a loss for the current period it may create a suspense account, and charge only a portion of the loss against revenue each year until the amount is completely written off.
TRADE PRICE.	A price charged to persons in the trade and lower than the price charged to the general public.
TRADE DISCOUNT.	See discount. An allowance to those in the trade, usually a fairly high percentage, and constituting the retailer's profit.
TRANSFEREE.	A person to whom goods, money, shares, etc., are transferred.
TRANSFEROR.	A person who transfers shares, goods, money, etc.
UNDERWRITER.	One who underwrites. The term is derived from the practice of insurers at Lloyds, who share among them the insurance of a risk, each person writing his name at the foot of the document to show the amount or proportion of the insurance he is willing to carry. He underwrites the policy. The term is extended to other spheres than insurance, e.g., when a big loan is being issued some person or persons will underwrite it, i.e., take up all or part of the loan for which the public do not apply. The underwriter is paid a commission for this service.
VOUCHER.	A document such as a receipt testifying that certain things have been done, e.g., that a payment has been made.
WRITE DOWN.	To write down an asset is to reduce its book value by ordinary or special depreciation.
WRITE OFF.	To write off a debt or other asset is to remove it from the books by crediting the account of the asset and debiting some other account.

FOUR TEST PAPERS SUITABLE FOR REVISION PURPOSES AND PREPARATION FOR EXAMINATIONS.

TEST PAPER No. 1.

Three Hours are allowed for this Paper.

PART I.

From the following data prepare Cash Book, Invoice Analysis Book, and Ledger Accounts (personal and impersonal), afterwards incorporating the adjustments given and preparing the trial balance embodying the balances of the Ledger Accounts:—

	£	
Goods purchased, and paid for	800	
Goods and stock charges, paid.....	20	
Selling expenses, paid	80	(including shop wages, £65).
Delivery expenses, paid	5	
Land, buildings, and fixtures charges, paid	30	
General charges, paid	55	(including office wages, £25).
Cash sales in shop, paid	1000	
Land and buildings purchased, and paid for	1000	
Fixtures purchased, and paid for	200	
Interest on C.W.S. shares, added to C.W.S. Loan Account.....	20	
Invested in C.W.S. Share Account ...	800	(paid by cheque).
Invested in C.W.S. Loan Account....	100	(£80 paid by cheque and £20 share interest transferred).
Members' share capital received	3000	
Members' share capital withdrawn ...	200	
Payments of cash into bank.....	3600	

The sales and the share contributions were cash receipts; and the wages and share withdrawals were cash payments; the rest of the receipts and payments were bank items.

(*Continued.*)

ADJUSTMENTS.

Provide for the following items before making up the trial balance:—

	£
Interest on Members' share capital	40
Interest on (*a*) Land and buildings	10
(*b*) Fixtures	5
(*c*) Stock	5
Depreciation on (*a*) Land and buildings	4
(*b*) Fixtures	6

PART II.

Not more than *three* of the following questions may be attempted. Extra marks are allocated to Questions 4 and 5.

---

1. Prepare an order cheque for £50 and cross it specially.

2. Prepare an invoice for the sale of six dozen pairs of shoes at 10s. per pair, sold by the Goodfit Shoe Society Ltd. to the Redcorner Co-operative Society Ltd.

3. What is the difference between a Personal and an Impersonal Ledger Account? Give one example of each type of account.

4. Explain how income and expenditure differ from receipts and payments.

5. How does the classification of expenditure according to function differ from the classification of the same expenditure according to its nature.

TEST PAPER No. 2.

Three Hours are allowed for this Paper.

PART I.

The following trial balance represents the balances of the Ledger Accounts of the Exwhy Co-operative Society Ltd. at the end of the year but before certain adjustments have been made. You are asked to make the adjustments given below, incorporate them in the trial balance, and afterwards prepare the following Balance Sheet Accounts for the year, viz.:—

Trading Account.
Investments Revenue Account.
Final Revenue Account.
Disposable Balance Account (Part B).
Statement of Liabilities and Assets.

TRIAL BALANCE.

	Dr. £	*Cr.* £
Cash in hand	160	...
Cash at bank	1100	...
Goods purchased	6000	...
Stock on hand to begin	600	...
Goods sold	...	8000
Goods and stock charges	30	...
Selling expenses	400	...
Delivery expenses	20	...
Land, buildings, and fixtures charges	120	...
General charges	80	...
Loan interest	50	...
Reserve Fund	...	1000
Disposable balance brought forward	...	100
Share interest received	...	100
Share investment in C.W.S.	2000	...
Interest Receivable Account for interest charged to Trade Account—		
(*a*) Land, buildings, and fixtures	...	50
(*b*) Stocks	...	10
Members' share capital	...	1500
Loan capital	...	1000
Land and Buildings Capital Account	1000	...
Fixtures Capital Account	200	...
	£11760	£11760

(*Continued.*)

ADJUSTMENTS.

Provide for the following items:—

	£
Members' share interest for year	60
Depreciation—Land and buildings	25
Fixtures	20
Stock on hand at end of year	500

PART II.

Answers are to be submitted to not more than *three* of the following questions. Extra marks are allocated to Questions 4 and 5.

1. What is the Journal? How does it differ from the Ledger?

2. Prepare a statement of account as sent out by a trader to his customer monthly. Enter three items in the statement.

3. What is discount? How does trade discount differ from prompt cash discount?

4. Enter the following items in the Cash Book and Invoice Analysis Book, afterwards balancing the Cash Book and totalling the Invoice Analysis Book.

	£
Jan. 1.—Received share capital (cash) from ten members	170
,, 1.—Bought goods from C.W.S. Ltd.	200
,, 2.—Paid into bank	160
,, 3.—Bought stationery from A. Printer	5
,, 3.—Paid L.N.E. Railway Co. carriage inwards (cash)	2
,, 4.—Paid shop wages (cash)	3
,, 5.—Bought goods from C.W.S. Ltd.	300
,, 5.—Paid L.N.E. Railway Co. carriage inwards (cash)	3
,, 5.—Shop takings up to date (cash)	80
,, 6.—Paid into bank	80
,, 8.—Bought new counter for shop from A. Wood	20
,, 8.—Withdrew from bank	10
,, 9.—Paid office wages (cash)	3
,, 10.—Received and paid bill for electricity (cash)	2
,, 10.—Shop takings (cash)	20
,, 10.—Paid into bank	20
,, 10.—Paid C.W.S. Ltd. by cheque	200

5. What is depreciation? To what causes is it due and upon what basis of value is the charge for depreciation calculated?

TEST PAPER No. 3.

Three Hours are allowed for this Paper.

PART I.

From the following data prepare the Cash Book, Invoice Analysis Book, and Ledger Accounts (personal and impersonal) of the Heyday Co-operative Society Ltd. for the half year, afterwards making the undermentioned adjustments and preparing a trial balance incorporating the balances of the Ledger Accounts:—

	£
Received in cash—	
Share contributions	1800
Loan contributions	1000
Shop sales of goods	3000
Withdrawals from bank	200
Payments in cash—	
Shop wages	150
Office wages	50
Cleaning expenses	10
Deposits in bank	5500
Payments by cheque—	
Share investments in C.W.S.	1800
Goods purchased	2000
Goods and stock charges	10
Selling expenses	20
Delivery expenses	20
Land, buildings, and fixtures charges	40
General charges	60
Loan interest	25
Received by cheque—	
Interest on C.W.S. shares	45

Adjustments.

Provide for the following items:—

(1) £40 for interest on members' share capital.

(2) £30 interest on stocks.

(3) One quarter's rates (£10) for which no demand note has been received.

PART II.

Answers may be submitted to not more than *three* of the following questions. Extra marks are allocated for Questions 4 and 5.

---

1. What is meant by the term "double entry" as employed in Book-keeping? Illustrate your answer by journalising a purchase of groceries value £200 from the C.W.S. Ltd.

2. What is capital expenditure? Give two examples of capital expenditure.

3. What is the difference between a debtor and creditor? Give one example of each.

4. Make out a bank reconciliation statement from the following data, and show the balance as per Bank Pass Book:—

	£
Balance at bank as per Cash Book	2000
Cheques paid out and not presented	800
Cheques entered in Cash Book but not paid into bank	700

5. Prepare an Investments Revenue Account from the following data and balance it, showing also the account to which the balance is transferred:—

	£
Members' share interest	120
Loan interest payable by society	80
Savings-bank interest payable by society	40
Interest on share investments	100
Interest on loan investments	20
Interest charged to Trading Account—	
(*a*) On land, buildings, and fixtures	80
(*b*) On stocks	60

TEST PAPER No. 4.

Three Hours are allowed for this Paper.

PART I.

The following is the trial balance of the Newplace Co-operative Society Ltd. at the end of the half year before the final adjustments have been made. You are asked to make the adjustments given below, and afterwards prepare the following accounts:—

Trading Account.
Investments Revenue Account.
Final Revenue Account.
Balance Disposable Account (Part B).
Statement of Liabilities and Assets.

	Dr.	*Cr.*
	£	£
Stock on hand to begin	4000	...
Purchases of goods	45000	...
Goods and stock charges	100	...
Selling expenses	3000	...
Delivery expenses	60	...
Land, buildings, and fixtures charges	200	...
General charges	400	...
Savings-bank interest	20	...
Education grant (Final Revenue A/c.)	100	...
Education committee	...	100
Collective Life Assurance Premium (Final Revenue Account)	120	...
Sales	...	50000
Investments Income—		
Share interest	...	25
Loan interest	...	15
Investments—		
Shares	1000	...
Loans	600	...
Members' share capital	...	9000
Savings-bank depositors	...	800
Sundry creditors	...	60
Shop fixtures	400	...
Cash in hand	300	...
Cash at bank	4700	...
	£60000	£60000

(Continued.)

ADJUSTMENTS.

Provide for the following items:—

(1) Members' share interest for half year, £200.

(2) Interest on average stocks (£10,000) for half year, at 5 per cent per annum.

(3) Interest on shop fixtures for half year, at 5 per cent per annum.

(4) Depreciation on shop fixtures for half year, at 10 per cent per annum.

Stock on hand at end of half year, £6,000.

PART II.

Answers may be submitted to not more than *three* of the following questions. Extra marks are allocated for Questions 4 and 5.

---

1. What are the three books of primary entry employed in a Co-operative Society? In which of these books are the following classes of items entered:—

(1) Shop takings.
(2) Goods bought on credit.
(3) Share capital receipts.

2. What is a credit? Prepare a specimen credit note.

3. What is a Ledger, and what is its purpose? How does it differ from a Journal and Day Book?

4. Prepare an Income and Expenditure Account of a guild branch from the following data:—

	£
Grant from society	5
Members' subscriptions	10
Membership and affiliation fees paid by guild	2
Printing, stationery, and postage	2
Surplus on tea party	2
Secretary's salary	2
Rent of rooms	2
Delegation expenses	4

5. Explain the difference between revenue expenditure and capital expenditure, giving two examples of each class of expenditure.

APPENDIX I.

The Ledger Accounts of the Newway Co-operative Society Limited as at January 30th, 1926 (after preparation of the Balance Sheet); also the Trial Balance and Balance Sheet of the Society.

PERSONAL LEDGER.

F. 1.

Dr. JOHN LORD. *Cr.*

		C.B.	£	s.	d.			Inv. No.	£	s.	d.
Jan. 8	To Bank.....	1	200	0	0	Jan. 4	By Shop	1	200	0	0

F. 2.

Dr. CO-OPERATIVE WHOLESALE SOCIETY LTD. *Cr.*

		C.B.	£	s.	d.			Inv. No.	£	s.	d.
Jan. 11	To Bank.....	1	80	0	0	Jan. 5	By Goods ...	2	80	0	0
,, 15	,, ,, ...	1	100	0	0	,, 11	,, ,, ...	7	100	0	0
,, 20	,, ,, ...	1	100	0	0	,, 13	,, ,, ...	9	100	0	0
,, 26	,, ,, ...	1	120	0	0	,, 16	,, Stat'n'y .	12	10	0	0
,, 30	,, Bal. carr. down ...		120	0	0	,, 21	,, Goods ...	14	110	0	0
						,, 29	,, ,, ...	20	120	0	0
			£520	0	0				£520	0	0
						,, 30	By Bal. brot. down ...		120	0	0

F. 3.

Dr. SMITH & BROWN. *Cr.*

		C.B.	£	s.	d.			Inv. No.	£	s.	d.
Jan. 11	To Bank.....	1	40	0	0	Jan. 5	By Goods ...	3	40	0	0
,, 20	,, ,, ...	1	20	0	0	,, 13	,, ,, ...	10	20	0	0
,, 30	,, Bal. carr. down ...		20	0	0	,, 25	,, ,, ...	15	20	0	0
			£80	0	0				£80	0	0
						,, 30	By Bal. brot. down....		20	0	0

F. 4.

Dr. GREEN & BLACK. *Cr.*

		C.B.	£	s.	d.			Inv. No.	£	s.	d.
Jan. 11	To Bank.....	1	20	0	0	Jan. 5	By Goods ...	4	20	0	0

F. 5.

Dr. WREN & CO. *Cr.*

		C.B.	£	s.	d.			Inv. No.	£	s.	d.
Jan. 11	To Bank.....	1	10	0	0	Jan. 5	By Goods ...	5	10	0	0

F. 6.

Dr. WOOD & CO. *Cr.*

		C.B.	£	s.	d.			Inv. No.	£	s.	d.
Jan. 6	To Bank.....	1	10	0	0	Jan. 6	By Fixtures.	6	10	0	0

F. 7.

Dr. BRUSH & CO. *Cr.*

		C.B.	£	s.	d.			Inv. No.	£	s.	d.
Jan. 13	To Bank.....	1	20	0	0	Jan. 13	By Painting (L., B., & F. Account) ...	11	20	0	0

F. 8.

Dr. A. SMITH. *Cr.*

		C.B.	£	s.	d.			Inv. No.	£	s.	d.
Jan. 28	To Cash.....	1	5	0	0	Jan. 28	By Carriage (Delivery) .	17	5	0	0

F. 9.

Dr. L. M. & S. RAILWAY CO. *Cr.*

		C.B.	£	s.	d.			Inv. No.	£	s.	d.
Jan. 28	To Cash.....	1	2	0	0	Jan. 28	By Carriage (Goods Account)	18	2	0	0

F. 10.

Dr. CO-OPERATIVE INSURANCE SOCIETY LTD. *Cr.*

		C.B.	£	s.	d.			Inv. No.	£	s.	d.
Jan. 28	To Bank.....	1	3	0	0	Jan. 28	By Insurance (various)	19	3	0	0

F. 11.

Dr. CORPORATION. *Cr.*

		C.B.	£	s.	d.			Inv. No.	£	s.	d.
Jan. 30	To Bank.....	1	2	0	0	Jan. 30	By Electricity (L., B., & F. Charges)	22	2	0	0

F. 12.

Dr. POST OFFICE. *Cr.*

		C.B.	£	s.	d.			Inv. No.	£	s.	d.
Jan. 30	To Bank.....	1	1	0	0	Jan. 30	By Telephone Charges (Selling Exp'nses)	23	1	0	0

F. 13.

Dr. STAFF (WAGES). *Cr.*

		C.B.	£	s.	d.			Inv. No.	£	s.	d.
Jan. 13	To Cash	1	4	0	0	Jan. 13	By Selling Expenses—				
,, 20	,, ,, ...	1	4	0	0		Shop Wages	8	4	0	0
,, 27	,, ,, ...	1	5	0	0	,, 20	,, ,,	13	4	0	0
,, 30	,, ,, ...	1	8	0	0	,, 27	,, ,,	16	5	0	0
						,, 30	Office Wages	21	8	0	0
			£21	0	0				£21	0	0

IMPERSONAL LEDGER.

F. 1.

Dr. SALES ACCOUNT. *Cr.*

		£	s.	d.			C.B.	£	s.	d.
Jan. 30	To Amount carried to Trading Account ...	530	0	0	Jan. 7	By Cash.....	1	20	0	0
					,, 8	,, ,, ...	1	25	0	0
					,, 11	,, ,, ...	1	20	0	0
					,, 12	,, ,, ...	1	25	0	0
					,, 13	,, ,, ...	1	20	0	0
					,, 14	,, ,, ...	1	25	0	0
					,, 15	,, ,, ...	1	30	0	0
					,, 16	,, ,, ...	1	35	0	0
					,, 18	,, ,, ...	1	25	0	0
					,, 19	,, ,, ...	1	30	0	0
					,, 20	,, ,, ...	1	30	0	0
					,, 21	,, ,, ...	1	25	0	0
					,, 22	,, ,, ...	1	25	0	0
					,, 23	,, ,, ...	1	20	0	0
					,, 25	,, ,, ...	1	20	0	0
					,, 26	,, ,, ...	1	25	0	0
					,, 27	,, ,, ...	1	30	0	0
					,, 28	,, ,, ...	1	30	0	0
					,, 29	,, ,, ...	1	40	0	0
					,, 30	,, ,, ...	1	30	0	0
		£530	0	0				£530	0	0

F 2.

Dr. GOODS PURCHASED. *Cr.*

		I.A.B.	£	s.	d.			£	s.	d.
Jan. 30	To Sundry Persons....	1	622	0	0	Jan. 30	By Amount carried to Trading Account	622	0	0
			£622	0	0			£622	0	0

F. 3.

Dr. GOODS AND STOCK CHARGES. *Cr.*

		£	s.	d.		£	s.	d.			£	s.	d.
Jan. 30	To Sundry Persons—								Jan. 30	By Amount carried to Trading Account			
	Insur. on Stock..	1	0	0	I.A.B.							2	0	0
	Int. on Stock..	1	0	0	1									
						2	0	0						
						£2	0	0				£2	0	0

F. 4.

Dr. SELLING EXPENSES. *Cr.*

			£ s. d.			£ s. d.
Jan. 30	To Sundry Persons—			Jan. 30	By Amount carried to Trading Account	19 0 0
	Wages ...18 0 0	I.A.B				
	Teleph'e 1 0 0	1				
			19 0 0			
			£19 0 0			£19 0 0

F. 5.

Dr. DELIVERY EXPENSES. *Cr.*

			£ s. d.			£ s. d.
Jan. 30	To Sundry Persons....	I.A.B. 1	5 0 0	Jan. 30	By Amount carried to Trading Account	5 0 0
			£5 0 0			£5 0 0

F. 6.

Dr. LAND, BUILDINGS, AND FIXTURES CHARGES. *Cr.*

			£ s. d.			£ s. d.
Jan. 30	To Sundry Persons—			Jan. 30	By Amount carried to Trading Account	27 0 0
	Painting ..20 0 0					
	Insurance 2 0 0					
	Gr'nd R't 1 0 0					
	Deprec't'n 1 0 0					
	Int. on Land, Buildi'gs, & Fixt's 1 0 0	I.A.B.				
	Electricity 2 0 0	1				
			27 0 0			
			£27 0 0			£27 0 0

F. 7.

Dr. GENERAL CHARGES. *Cr.*

			£ s. d.			£ s. d.
Jan. 30	To Sundry Persons—			Jan. 30	By Amount carried to Trading Account	19 0 0
	Station'y..10 0 0					
	Office Wages ... 8 0 0	I.A.B				
	Bank Charges.. 1 0 0	1				
			19 0 0			
			£19 0 0			£19 0 0

F. 8.

Dr. INVESTMENTS REVENUE ACCOUNT CHARGES. *Cr.*

			£ s. d.			£ s. d.
Jan. 30	To Share Interest— Members	I.A.B. 1	2 0 0	Jan. 30	By Amount carried to Inv. Rev. Account	2 0 0
			£2 0 0			£2 0 0

F. 9.

Dr. FINAL REVENUE ACCOUNT CHARGES. *Cr.*

F. 10.

Dr. LAND, BUILDINGS, AND FIXTURES CAPITAL ACCOUNT. *Cr.*

			£ s. d.				£ s. d.
Jan. 30	To Sundry Persons— Shop .....200 0 0 Fixtures... 10 0 0	I.A.B. 1	210 0 0	Jan. 30	By Land, Buildings, & Fixtures Charges (Depreciation).....	J. 1	1 0 0
				„ 30	„ Bal. carr. down ...		209 0 0
			£210 0 0				£210 0 0
Jan. 30	To Balance of A/c. brought down		209 0 0				

F. 11.

Dr. INTEREST RECEIVABLE ACCOUNT. *Cr.*

		£ s. d.				£ s. d.
Jan. 30	To Amount carried to Investments Rev. Account	3 0 0	Jan. 30	By Accrued Int. A/c.	J. 1	1 0 0
			„ 30	„ Land, Buildings, & Fixtures Charges	1	1 0 0
			„ 30	„ Goods and Stock Charges.....	1	1 0 0
		£3 0 0				£3 0 0

F. 12.

Dr. SHARE INTEREST DUE TO MEMBERS. *Cr.*

		£ s. d.				£ s. d.
Jan. 30	To Balance of A/c. carried down.....	2 0 0	Jan. 30	By Investments Rev. Account	J. 1	2 0 0
		£2 0 0				£2 0 0
			Jan. 30	By Balance of A/c. brought down ...		2 0 0

F. 13.

Dr. ACCRUED INTEREST ACCOUNT. *Cr.*

			£ s. d.				£ s. d.
Jan. 30	To Int. Receivable Account (C.W.S. Share Interest)...	J. 1	1 0 0	Jan. 30	By Balance of A/c. carried down.....		1 0 0
			£1 0 0				£1 0 0
Jan. 30	To Balance of A/c. brought down ...		1 0 0				

F. 14.

Dr. SUNDRY ACCOUNTS OWING. *Cr.*

		£ s. d.				£ s. d.
Jan. 30	To Balance of A/c. carried down.....	6 0 0	Jan. 30	By Land, Buildings, & Fixtures Charges (Ground Rent) ..	J. 1	1 0 0
			„ 30	„ Selling Expenses (Staff Wages)	1	5 0 0
		£6 0 0				£6 0 0
			Jan. 30	By Balance of A/c. brought down ...		6 0 0

INVESTMENTS LEDGER.

F. 1.

CO-OPERATIVE WHOLESALE SOCIETY LTD.

Dr. SHARE INVESTMENTS. *Cr.*

		C.B.	£ s. d.			£ s. d.
Jan. 14	To Bank.....	1	100 0 0	Jan. 30	By Bal'ce of A/c. carr. down	100 0 0
			£100 0 0			£100 0 0
Jan. 30	To Bal'ce of A/c. brot. down		100 0 0			

SHARE LEDGER.

F. 1.

Dr. CHARLES JONES. *Cr.*

			£ s. d.			C.B.	£ s. d.
Jan. 30	To Bal'ce of A/c. carr. down		155 0 0	Jan. 1	By Cash.....	1	5 0 0
				,, 4	,, ,, ...	1	50 0 0
				,, 14	,, ,, ...	1	100 0 0
			£155 0 0				£155 0 0
				Jan. 30	By Bal'ce of A/c. brot. down		155 0 0

F. 2.

Dr. FRANK WOOD. *Cr.*

		C.B.	£ s. d.			C.B.	£ s. d.
Jan. 19	To Cash.....	1	5 0 0	Jan. 1	By Cash.....	1	5 0 0
,, 30	,, Bal'ce of A/c. carr. down.....		60 0 0	,, 4	,, ,, ...	1	60 0 0
			£65 0 0				£65 0 0
				Jan. 30	By Bal'ce of A/c. brot. down		60 0 0

F. 3.

Dr. ROBERT OGDEN. *Cr.*

			£ s. d.			C.B.	£ s. d.
Jan. 30	To Bal'ce of A/c. carr. down		45 0 0	Jan. 1	By Cash.....	1	5 0 0
				,, 4	,, ,, ...	1	40 0 0
			£45 0 0				£45 0 0
				Jan. 30	By Bal'ce of A/c. brot. down		45 0 0

F. 4.

Dr. JOSEPH PALMER. *Cr.*

		£ s. d.			C.B.	£ s. d.
Jan. 30	To Bal'ce of A/c. carr. down	5 0 0	Jan. 1	By Cash.....	1	5 0 0
		£5 0 0				£5 0 0
			Jan. 30	By Bal'ce of A/c. brot. down		5 0 0

F. 5.

Dr. JAMES HUNT. *Cr.*

		£ s. d.			C.B.	£ s. d.
Jan. 30	To Bal'ce of A/c. carr. down	25 0 0	Jan. 1	By Cash.....	1	5 0 0
			,, 5	,, ,, ...	1	20 0 0
		£25 0 0				£25 0 0
			Jan. 30	By Bal'ce of A/c. brot. down		25 0 0

F. 6.

Dr. THOMAS POLLITT. *Cr.*

		£ s. d.			C.B.	£ s. d.
Jan. 30	To Bal'ce of A/c. carr. down	25 0 0	Jan. 1	By Cash.....	1	5 0 0
			,, 5	,, ,, ...	1	20 0 0
		£25 0 0				£25 0 0
			Jan. 30	By Bal'ce of A/c. brot. down		25 0 0

F. 7.

Dr. KAY BROWN. *Cr.*

		£ s. d.			C.B.	£ s. d.
Jan. 30	To Bal'ce of A/c. carr. down	5 0 0	Jan. 1	By Cash.....	1	5 0 0
		£5 0 0				£5 0 0
			Jan. 30	By Bal'ce of A/c. brot. down		5 0 0

F. 8.

Dr. SUNDRY SHAREHOLDERS (8 to 107). *Cr.*

		£	s.	d.			C.B.	£	s.	d.
Jan. 30	To Bal'ce of A/c. carr. down	200	0	0	Jan. 2	By Cash— M'b'rs, 8/27	1	40	0	0
					,, 4	,, 28/57	1	60	0	0
					,, 5	,, 58/77	1	40	0	0
					,, 8	,, 78/87	1	20	0	0
					,, 14	,, 88/97	1	20	0	0
					,, 22	,, 98/107	1	20	0	0
		£200	0	0				£200	0	0
					Jan. 30	By Bal'ce of A/c. brot. down		200	0	0

NEWWAY CO-OPERATIVE

TRIAL BALANCE,

Compiled from the foregoing Ledger Accounts and

LEDGER ACCOUNT.	Ledger Folio.	FULL TRIAL BALANCE.	
		Dr.	*Cr.*
		£ s. d.	£ s. d.
Cash	C. B. 1	1055 0 0	1013 0 0
Bank	C. B. 1	980 0 0	827 0 0
Sales	Imp. L. 1	.....	530 0 0
Purchases	,, 2	622 0 0	.....
Goods and Stock Charges	,, 3	2 0 0	.....
Selling Expenses	,, 4	19 0 0	.....
Delivery Expenses	,, 5	5 0 0	.....
Land, Buildings, and Fixtures Charges	,, 6	27 0 0	.....
General Charges	,, 7	19 0 0	.....
Investments Revenue A/c. Charges	,, 8	2 0 0	.....
Final Revenue Account Charges	,, 9	.....	.....
Land, Buildings, and Fixtures (Capital Account)	,, 10	210 0 0	1 0 0
Interest Receivable Account	,, 11	.....	3 0 0
Share Interest due to Members	,, 12	.....	2 0 0
Accrued Interest Account	,, 13	1 0 0	.....
Sundry Accounts owing	,, 14	.....	6 0 0
C.W.S. Share Investment	Inv. L. 1	100 0 0	.....
Sundry Shareholders	S. L. 1/107	5 0 0	525 0 0
Sundry Creditors	Pers. L.	754 0 0	894 0 0
TOTAL		£3801 0 0	£3801 0 0

SOCIETY LIMITED.

JANUARY 30TH, 1926.

from the Cash Book given on pages 112 and 113.

LEDGER ACCOUNT.	SKELETON TRIAL BALANCE.	
	Dr.	*Cr.*
	£ s. d.	£ s. d.
Cash	42 0 0	.....
Bank	153 0 0	.....
Sales	.....	530 0 0
Purchases	622 0 0	.....
Goods and Stock Charges	2 0 0	.....
Selling Expenses	19 0 0	.....
Delivery Expenses	5 0 0	.....
Land, Buildings, and Fixtures Charges	27 0 0	.....
General Charges	19 0 0	.....
Investments Revenue Account Charges	2 0 0	.....
Final Revenue Account Charges	.....	.....
Land, Buildings, and Fixtures (Capital A/c.)	209 0 0	.....
Interest Receivable Account	.....	3 0 0
Share Interest due to Members	.....	2 0 0
Accrued Interest Account	1 0 0	.....
Sundry Accounts owing	.....	6 0 0
C.W.S. Share Investment	100 0 0	.....
Sundry Shareholders	.....	520 0 0
Sundry Creditors	.....	140 0 0
TOTAL	£1201 0 0	£1201 0 0

BALANCE

Dr. I.—CASH

RECEIPTS.	£ s. d.	£ s. d.
Capital Account.		
To Contributions—		
Shares	525 0 0	
Loans	.....	
Savings-Bank Deposits	.....	
		525 0 0
Sundry Items.		
Nil.	.....	
Trading Account.		
,, Sales (Goods)	530 0 0	
,, ,, (Sundries)	.....	
,, Dividend on Purchases	.....	
		530 0 0
Investments Revenue and Final Revenue Account.		
Nil	.....	.....
	£1055 0 0	£1055 0 0

Dr. II.—TRADING

	£ s. d.	£ s. d.
To Goods, including Carriage	622 0 0	
,, Goods and Stock Charges	2 0 0	
,, Selling Expenses	19 0 0	
,, Delivery Expenses	5 0 0	
,, Charges for Land, Buildings, and Fixtures used in Trade	27 0 0	
,, General Charges	19 0 0	
		694 0 0
,, Balance—Surplus, transferred to Final Revenue Account	36 0 0	36 0 0
	£730 0 0	£730 0 0

SHEET ACCOUNTS.

ACCOUNT. *Cr.*

PAYMENTS.	£	s.	d.	£	s.	d.
Capital Account.						
By Repayments—						
Shares	5	0	0			
Loans	.....					
Savings-Bank	.....					
				5	0	0
Capital Expenditure.						
,, Land and Buildings	200	0	0			
,, Fixed Stock	10	0	0			
				210	0	0
Share and Loan Investments.						
,, Shares	100	0	0			
				100	0	0
Sundry Items.						
Nil.	.....					
Trading Account.						
,, Goods	482	0	0			
,, Wages	21	0	0			
,, Other Expenses chargeable to Trade	42	0	0			
				545	0	0
Investments Revenue and Final Revenue Account.						
Nil.	.....			.....		
Total Payments	860	0	0	860	0	0
,, Cash in hand	42	0	0			
,, ,, at Bank	153	0	0	195	0	0
	£1055	0	0	£1055	0	0

ACCOUNT. *Cr.*

	£	s.	d.	£	s.	d.
By Sales	530	0	0	530	0	0
,, Stock on hand, January 30th, 1926	200	0	0	200	0	0
	£730	0	0	£730	0	0

Dr. III.—INVESTMENTS

	£ s. d.	£ s. d.
To Interest for Month on Shares	2 0 0	2 0 0
,, Balance—Surplus, transferred to Final Revenue Account	1 0 0	1 0 0
	£3 0 0	£3 0 0

Dr. IV.—FINAL

	£ s. d.	£ s. d.
To Balance—Net Surplus, carried to Disposable Balance Account, Part B	37 0 0	37 0 0
	£37 0 0	£37 0 0

V.—DISPOSABLE

Dr. PART A—DISPOSAL OF BALANCE

	£ s. d.	£ s. d.
To Allocations—		
For Distributive Societies: Dividend to Members	.....	
,, Non-members	.....	
Bonus to Employees	.....	
For Productive Societies: Dividend on Purchases	.....	
,, Wages	.....	
,, Capital	.....	
*Education Fund	.....	
Charitable Donations	.....	
Special Depreciation	.....	
General Reserve Fund	.....	
Dividend Equalisation Fund	.....	
Other Allocations (to be stated)—		
.....		
.....		
,, Unappropriated Balance carried forward to Part B of Account	.....	.....
TOTAL £	.....	.....

* Where Appropriated from Trading Surplus.

Dr. PART B—CURRENT PERIOD—

	£ s. d.	£ s. d.
To Appropriation for Share Interest for Half Year, as per Investments Revenue A/c	2 0 0	
,, Balance disposable (after making appropriation for Share Interest), as per Statement of Liabilities and Assets	37 0 0	39 0 0
	£39 0 0	£39 0 0

REVENUE ACCOUNT.

Cr.

	£	s.	d.	£	s.	d.
By Interest and Dividend receivable on Share Investments	1	0	0			
,, Interest chargeable to Trade Account—						
(*a*) Buildings, etc.	1	0	0			
(*b*) Stocks, etc.	1	0	0	3	0	0
	£3	0	0	£3	0	0

REVENUE ACCOUNT.

Cr.

	£	s.	d.	£	s.	d.
By Balance—						
Net Surplus from Trading Account	36	0	0			
Net Surplus from Investments Revenue Account	1	0	0	37	0	0
	£37	0	0	£37	0	0

BALANCE ACCOUNT.

AVAILABLE AT END OF LAST HALF YEAR.

Cr.

	£	s.	d.	£	s.	d.
By Balance disposable, as per last Balance Sheet	.....					
,, Appropriation from—						
Dividend Equalisation Fund	.....					
Reserve Fund	.....					
				.....		
TOTAL £	.....			.....		

AVAILABLE BALANCE.

Cr.

	£	s.	d.	£	s.	d.
By Net Unappropriated Balance brought forward from last Account, as per Part A	.....					
,, Balance—Surplus, from Final Revenue A/c.	37	0	0			
,, Share Interest, as charged to Investments Revenue Account	2	0	0	39	0	0
	£39	0	0	£39	0	0

NEWWAY CO-OPERATIVE

VI.—STATEMENT OF LIABILITIES AND

LIABILITIES.	£ s. d.	£ s. d.
1. Shares—		
Withdrawable Shares	520 0 0	520 0 0
2. Loans, etc.—Nil	.....	
3. Various Liabilities—		
Creditors for Goods	140 0 0	
Other Amounts owing	6 0 0	
Amount appropriated for Share Interest not yet credited to Share Capital Account	2 0 0	148 0 0
4. Reserve and Insurance Funds—Nil	.....	
Total of all preceding items	668 0 0	668 0 0
Balance disposable, as per Disposable Balance Account, Part B, carried to next Half Year	37 0 0	37 0 0
	£705 0 0	£705 0 0

SOCIETY LIMITED.

ASSETS, AS AT JANUARY 30TH, 1926.

ASSETS.	£ s. d.	£ s. d.
1. Stocks—		
(*a*) Trading Stocks	200 0 0	
(*b*) Expenses Stocks	.....	200 0 0
2. Property—		
Land and Buildings used in Trade	199 0 0	
Fixtures and Fittings	10 0 0	209 0 0
3. Investments—		
Shares—		
I. &. P. Societies	100 0 0	100 0 0
4. Various Assets—		
Accounts owing to Society for Goods	.....	
Other Amounts owing to Society	.....	
Interest accrued	1 0 0	1 0 0
Total of all preceding items	510 0 0	510 0 0
Cash at Bank	153 0 0	
Cash in Hand	42 0 0	195 0 0
	£705 0 0	£705 0 0

APPENDIX II.

THE FORM OF STANDARD BALANCE SHEET IN BLANK.

The Co-operative Union Limited,

HOLYOAKE HOUSE, MANCHESTER.

Standard Balance Sheet

As agreed between the Standard Balance Sheet Committee of the Co-operative Union and the Executive of the Co-operative Secretaries' Association, and afterwards approved by the United and Central Boards of the Co-operative Union and the Annual Co-operative Congress.

STANDARD ACCOUNTS

INCLUDING

I.—Cash Account.
II.—Bank Account (Optional).
III.—Trade Expenses Account.
IV.—Trading Account.
V.—Investments Revenue Account.
VI.—Final Revenue Account.
VII.—Disposable Balance Account.
Part A.—Disposal of Balance at end of last period.
Part B.—Current Half Year.—Available Balance.
VIII.—Statement of Liabilities and Assets.
IX.—Proposed Disposal of Available Balance.
X.—Education Department Account.
(1) Receipts and Payments.
(2) Liabilities and Assets.

Dr. I.—CASH

RECEIPTS.	£	s.	d.	£	s.	d.
CAPITAL ACCOUNT.						
To Contributions—						
Shares						
Loans						
,, Savings-Bank Deposits						
,, Fees and Fines—						
Entrance, Nominations, and Withdrawals						
,, Rules and Pass Books						
,, Stamp Sales and Club Deposits						
,, Hire-purchase Instalments						
,, Sales of—						
Land and Buildings						
Fixtures and Fittings						
Machinery and Plant						
Live and Rolling Stock						
,, House Property sold						
,, Mortgages repaid						
,, Investments withdrawn—						
Shares						
Loans						
,, Mortgages and Bonds on Property						
,, Repayment of House Property Advances—						
C.W.S. House Purchase Scheme						
Other Repayments						
SUNDRY ITEMS.						
,, Staff Guarantee Deposits						
,, Compensation and Insurance Claims						
,, National Health Insurance Sick Pay repaid						
,, Collective Life Assurance Claims						
TRADING ACCOUNT.						
,, Sales (Goods)						
,, ,, (Sundries—Hides, &c.)						
,, Dividends on Purchases						
,, Trade Commission						
INVESTMENTS REVENUE AND FINAL REVENUE ACCOUNTS.						
,, House Property Rents						
,, Other Rents, including Letting of Halls, &c.						
,, Interest and Dividends on Investments						
,, ,, on Debts and Advances						
,, Bank Interest and Dividends						
,, ,, Agency Commission						
,, Insurance Agency Premiums						
,, ,, ,, Commission and Dividends						
,, Collective Life Assurance Rebate						
,, National Health Insurance Grant for Working Expenses						
,, Education Fund						
TOTAL RECEIPTS ..... £						
,, Cash in hand						
,, ,, at Bank						
TOTAL ..... £						

ACCOUNT. *Cr.*

PAYMENTS.	£	s.	d.	£	s.	d.
CAPITAL ACCOUNT.						
By Repayments—						
Shares						
Loans						
Savings-Bank						
,, Interest and Dividends to Members						
,, Dividend to Non-members						
,, Interest on Mortgage and other Loans						
,, Stamp Sales and Club Repayments						
,, Hire-purchase Payments						
,, Capital Expenditure—						
Land and Buildings						
Fixtures and Fittings						
Machinery and Plant						
Live and Rolling Stock						
,, House Property						
,, Investments—						
Shares						
Loans						
Advances to Individuals on House Property						
Other Investments						
,, Mortgages and Bonds on Property repaid						
,, C.W.S. House Purchase Scheme Repayments						
SUNDRY ITEMS.						
,, Staff Guarantee Deposits repaid and Interest						
,, Compensation and Insurance Claims—Receipts paid out						
,, Payments from Society's own Compensation and Insurance Funds						
,, National Health Insurance Sick Pay						
,, Collective Life Assurance Claims						
TRADING ACCOUNT.						
,, Goods						
,, Wages						
,, Other Expenses charged to Trade						
INVESTMENTS REVENUE AND FINAL REVENUE ACCOUNTS.						
,, House Property Expenses						
,, Rents and other Expenses of Property not used in Trade						
,, Bank Interest and Commission						
,, Insurance Agency Premiums						
,, Collective Life Assurance Premium						
,, Death Benefit Fund Payments						
,, National Health Insurance Working Expenses						
,, Subscriptions chargeable to Revenue Account						
,, Education Fund Payments						
DISPOSABLE BALANCE ACCOUNT.						
,, Bonus to Employees						
,, Education Account Payments or Grant						
,, Donations and Charitable Subscriptions from Surplus						
TOTAL PAYMENTS						
,, Cash in hand						
,, ,, at Bank						
TOTAL						

Dr. II.—BANK ACCOUNT (OPTIONAL). *Cr.*

RECEIPTS.	£	s.	d.	£	s.	d.	PAYMENTS.	£	s.	d.	£	s.	d.
To Balance at							By Withdrawals						
,, Deposits.....							,, Commission and Charges						
,, Interest.....							,, Cheque Books						
							,, Balance at						
Total .....£							Total ....£						

III.—TRADE EXPENSES.

	£	s.	d.
Salaries and Wages—			
Productive and Service			
Distributive			
National Health and Unemployment Insurance			
Committee—			
Fees			
Other Expenses			
Auditing			
Stocktaking			
Rents			
Rates			
Taxes			
Fire Insurance			
Compensation Insurance			
Other Insurance			
General Repairs			
Lighting			
Heating			
Telephone Charges			
Postage and Telegrams			
Licences			
Horse Fodder			
Shoeing			
Vehicle and Harness Repairs			
Motor Repairs			
Petrol and Oil			
Printing and Stationery			
Advertising			
Bank Charges			
Delegations			
Sundries			
Interest			
Depreciation			
TOTAL £			

Dr. IV.—TRADING

	Productive and Service Depts. £	s.	d.	Distributive Departments. £	s.	d.	Total. £	s.	d.
To Stock on hand and work in progress at...									
,, Goods, including Carriage									
,, ,, transferred									
,, ,, and Stock Charges									
,, Selling Expenses (Distributive Depts.)...									
,, Manufacturing Costs (Productive Depts.)									
,, Direct Costs (Service Departments).....									
,, Delivery Expenses									
,, Charges for Land, Buildings, and Fixtures used in Trade									
,, General Charges allocated									
,, Balance—Net Trading Surplus carried to Final Revenue Account									
Total .....£									

Dr. V.—INVESTMENTS

	£	s.	d.	£	s.	d.
To Interest on Shares.....						
,, ,, Loans						
,, ,, Mortgages						
,, ,, Savings-Bank Deposits						
,, Bank Interest						
,, Other Interest						
,, Interest charged on Reserve, Insurance, and other Funds.....						
*Rents, Interest, and other Expenses of Property used in Trade						
,, House Property Account—						
Interest on Capital						
Depreciation						
Repairs						
Rates and Taxes						
Insurances						
Ground Rents.....						
Other Expenses.....						
,, Other Property not used in Trade—						
Expenses						
,, Balance of Account carried to Final Revenue Account						
Total .....£						

* For use where a Property Revenue Account is kept and

Dr. VI.—FINAL

	£	s.	d.	£	s.	d.
To Subscriptions not chargeable to Accounts IV. or VII.						
,, Education Grant (when based on membership).....						
,, Collective Life Assurance Premium						
,, *Less* Rebate						
,, Death Benefits Fund.....						
,, Other charges against Revenue (to be specified)						
,, Balance (Net Surplus) carried to Disposable Balance A/c,, Part B						
Total .....£						

ACCOUNT. *Cr.*

	Productive and Service Depts.			Distributive Departments.			Total.		
	£	s.	d.	£	s.	d.	£	s.	d.
†By Sales (and Revenue of Service Depts.)...									
,, Transfers of Goods and Services—									
Trading Account.....									
Investments Revenue and Final Revenue Account									
Capital Account									
,, Dividends on Purchases									
,, Trade Commissions									
Stock on hand at.....									
Total .....£									

† Including Goods sold on credit.

REVENUE ACCOUNT. *Cr.*

	£	s.	d.	£	s.	d.
By Interest and Dividends—						
On Share Investments						
,, Loan Investments						
,, Bank Current and Deposit Accounts						
,, Advances to Members on House Property						
,, Hire-purchase and Members' Debts						
From other sources						
,, Interest chargeable to Trade Account—						
(*a*) On Buildings, &c.....						
(*b*) On Stocks						
,, Interest chargeable to House Property Account						
,, ,, ,, on other Property not used in Trade						
,,*Rents chargeable to Trade Account						
,, House Property, Rents, &c.						
,, Other Property not used in Trade—Revenue.....						
Total .....£						

these Property Expenses are not charged to Trade.

REVENUE ACCOUNT. *Cr.*

	£	s.	d.	£	s.	d.
By Balance—Net Surplus from Trading Account—						
Productive and Service Departments.....						
Distributive Departments						
,, Balance—Net Surplus from Investments Revenue Account ..						
,, Sundry Earnings not credited to Trade, e.g., Bank Agency and Insurance Commissions						
Total ....£						

R*

VII.—DISPOSABLE

Dr. PART A.—Disposal of Balance

	£	s.	d.	£	s.	d.
To Allocations—						
For Distributive Societies. Dividend to Members						
„ Non-members						
Bonus to Employees						
For Productive Societies. Dividend on Purchases						
„ Wages						
„ Capital						
*Education Fund						
Charitable Donations						
Special Depreciation						
General Reserve Fund						
Dividend Equalisation Fund						
Other Allocations (to be stated)—						
.....						
.....						
„ Unappropriated Balance carried forward to Part B of Account						
TOTAL £						

* Where Appropriated from Trading Surplus.

PART B.—Current Half

	£	s.	d.	£	s.	d.
To Appropriation for Share Interest for Half Year, as per Investments Revenue Account						
„ Balance disposable (after making Appropriation for Share Interest), as per Account VIII.						
TOTAL £						

BALANCE ACCOUNT.

Available at end of last Half Year. *Cr.*

	£	s.	d.	£	s.	d.
By Balance disposable, as per last Balance Sheet						
„ Appropriation from—						
Dividend Equalisation Fund						
Reserve Fund						
TOTAL .....£						

Year.—Available Balance.

	£	s.	d.	£	s.	d.
By Net Unappropriated Balance brought forward from last Account, as per Part A.....						
„ Balance, Surplus, from Final Revenue Account						
„ Share Interest, as charged to Investments Revenue Account.						
TOTAL .....£						

VIII.—STATEMENT OF LIABILITIES

LIABILITIES.	£	s.	d.	£	s.	d.
(1) SHARES—						
Transferable Shares						
Withdrawable Shares						
(2) LOANS, &c.—						
Savings-Bank and Accrued Interest						
Loans and Accrued Interest						
Bank Overdraft						
Stamps and Clubs						
C.W.S. House Purchase Scheme						
Mortgages and Bonds on Property						
(3) VARIOUS LIABILITIES—						
Staff Guarantee Deposits						
Creditors for Goods						
,, Expenses						
Amount Appropriated for Share Interest not yet credited to Share Capital Account						
Other Liabilities (to be specified)—						
Total of (1), (2), and (3) above						
(4) RESERVE AND INSURANCE FUNDS—						
General Reserve						
Plate Glass Insurance Fund						
Cottage Insurance Fund						
Dividend Equalisation Fund						
Death Benefits Fund						
Contingent Fund						
Education Fund						
Total of all preceding items						
Balance disposable, as per Disposable Balance Account VII. B., carried to next Half Year						
TOTAL	£					

AND ASSETS.

ASSETS.	£	s.	d.	£	s.	d.
(1) STOCKS—						
(a) Trading Stocks—						
Distributive Departments						
Productive and Service Departments						
(b) Expenses Stocks—						
Distributive Departments						
Productive and Service Departments						
(2) PROPERTY—						
Land and Buildings used in Trade						
Fixtures and Fittings						
Machinery and Plant						
Live and Rolling Stock						
Land and Buildings not used in Trade						
House Property						
(3) INVESTMENTS—						
(a) Shares—						
I. and P. Societies						
Other Bodies						
(b) Loans—						
I. and P. Societies—						
On Mortgage						
Other Loans						
Other Bodies—						
On Mortgage						
Other Loans						
(c) House Property Advances to Individuals						
(d) C.W.S. House Purchase Scheme—						
Owing by Individuals						
(4) VARIOUS ASSETS—						
Accounts owing to Society for Goods— (£)						
Clubs						
Hire-purchase Accounts						
Other Accounts						
TOTAL						
Less Reserve						
Other Amounts owing to the Society (to be specified)—						
Accounts paid in advance						
Expenses charged forward						
Other Assets (to be specified)—						
House Rents owing						
Income Tax to be reclaimed						
Compensation Claims due						
Total of all preceding payments						
Cash at Bank—						
Deposit Account						
Current Account						
Cash in hand						
TOTAL						

Dr. IX.—PROPOSED DISPOSAL

	£	s.	d.	£	s.	d.
To „ Distributive Societies. Dividend to Members						
„ „ Non-members						
„ Bonus to Employees						
„ Productive Societies. Dividend on Purchases						
„ „ Wages						
„ „ Capital†						
„ Grants to Education Fund (when based on Surplus)						
„ Donations—						
Charitable						
Others						
„ Special Depreciation						
„ Allocations to Reserve and Insurance Funds—						
General Reserve						
Dividend Equalisation Fund						
Plate Glass Insurance Fund						
„ Other Allocations—						
.....						
.....						
„ Balance—Surplus carried forward to next Account						
TOTAL £						

† After charging Share Interest.

OF AVAILABLE BALANCE. *Cr.*

	£	s.	d.	£	s.	d.
By Balance disposable, as per Accounts VII. B. and VIII.						
,, Appropriations from—						
Dividend Equalisation Fund						
General Reserve Fund						
.....						
.....						
.....						
,, Other Credits (to be specified)—						
.....						
.....						
.....						
.....						
.....						
.....						
.....						
TOTAL .....£						

X.—EDUCATION

Dr.

ACCOUNT OF RECEIPTS

RECEIPTS.	£	s.	d.	£	s.	d.
To Grant for Half Year						
„ Socials—						
Receipts.....						
Expenses						
„ Other Receipts (to be specified)—						
Hire of Field Glasses						
.....						
.....						
.....						
.....						
.....						
Total of preceding items.....						
„ Balance at						
Cash in hand.....						
„ at Bank						
TOTAL .....£						

STATEMENT OF LIABILITIES

LIABILITIES.	£	s.	d.	£	s.	d.
Owing for *Co-operative News*						
„ *Wheatsheaf*						
Balance to Credit of Department						
TOTAL .....£						

N.B.—The foregoing Accounts are drafted to meet the needs of Education Departments which receive Banking Account. In those cases where all payments are made through the general Banking Account Account.

DEPARTMENT ACCOUNTS.

AND PAYMENTS. *Cr.*

PAYMENTS.	£	s.	d.	£	s.	d.
By Classes—						
Expenses						
Receipts						
,, Week-end Schools—						
Expenses						
Receipts						
,, Lectures—						
Expenses						
Receipts						
,, Propaganda Concerts—						
Expenses						
Receipts						
,, Library—						
Expenses						
Receipts						
,, *Co-operative News* and other Journals, &c.—						
Payments						
Receipts						
,, *Wheatsheaf* Expenses						
,, Pamphlets and General Literature						
,, Subscriptions to Educational Association						
,, Summer School Scholarships						
,, Other Scholarships						
,, Wages						
,, Committee Fees						
,, Delegations						
,, Printing and Advertising						
,, Stationery						
,, Postage						
Total of preceding items						
,, Balance at						
Cash in hand						
,, at Bank						
TOTAL						

AND ASSETS.

ASSETS.	£	s.	d.	£	s.	d.
Cash in hand						
,, at Bank						
TOTAL						

their grant Quarterly or Half-yearly in cash and keep their own books and have their own separate of the Society, an Income and Expenditure Account can be prepared instead of a Receipts and Payments

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